

March 6, 2002



# Financial Management

Controls Over Vendor Payments  
Made for the Army and Defense  
Agencies Using the Computerized  
Accounts Payable System  
(D-2002-056)

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### **Acronyms**

CAPS	Computerized Accounts Payable System
CAPS(W)	Computerized Accounts Payable System for Windows
CCR	Central Contractor Registry
CEFT	Corporate Electronic Funds Transfer
C.F.R.	Code of Federal Regulations
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DNO	Directorate of Network Operations
DPPS	Defense Procurement Payment System
EDA	Electronic Document Access
EDM	Electronic Document Management
EFT	Electronic Funds Transfer
FAR	Federal Acquisition Regulation
GAO	General Accounting Office
ODS	Operational Data Store
OMB	Office of Management and Budget
PPA	Prompt Payment Act
SPS	Standard Procurement System
USPFO	United States Property and Fiscal Office



INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE  
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March 6, 2002

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE (COMPTROLLER)  
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING  
SERVICE  
AUDITOR GENERAL, DEPARTMENT OF THE ARMY

SUBJECT: Audit Report on Controls Over Vendor Payments Made for the Army  
and Defense Agencies Using the Computerized Accounts Payable  
System (Report No. D-2002-056)

We are providing this report for review and comment. This is the second report in a series related to controls over the Computerized Accounts Payable System. We considered management comments on a draft of this report when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. The Under Secretary of Defense (Comptroller) comments were partially responsive. The Acting Chief Financial Officer did not address the development of standard business rules or provide a completion date for taking corrective actions in response to Recommendation A.1. Comments from the Director, Commercial Pay Services, for the Defense Finance and Accounting Service were generally responsive. However, we request additional comments on Recommendations A.2.b., A.2.c., B.2., B.3., C.1.c., and C.2.b. The Deputy Assistant Secretary of the Army (Financial Operations) comments were responsive. The Assistant Secretary of the Army (Acquisition, Technology, and Logistics) did not provide comments on the draft report. Therefore, we request that the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) provide comments on Recommendations C.1. and C.3. We request that management provide all comments by May 6, 2002.

We appreciate the courtesies extended to the audit staff. For additional information on this report, please contact Mr. Marvin L. Peek at (703) 604-9587 (DSN 664-9587) (mpeek@dodig.osd.mil) or Mr. Carmelo G. Ventimiglia at (317) 510-3852 (DSN 699-3852) (cventimiglia@dodig.osd.mil). See Appendix G for the report distribution. The audit team members are listed inside the back cover.

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Acting  
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## Office of the Inspector General, DoD

Report No. D-2002-056

(Project No. D2000FI-0248.001)

March 6, 2002

### Controls Over Vendor Payments Made for the Army and Defense Agencies Using the Computerized Accounts Payable System

#### Executive Summary

**Introduction.** Serious internal control weaknesses have been reported over the years in DoD payment processes and systems. As a result of those weaknesses, the risk of fraud and error is increased. Errors can include duplicate payments, payments in the wrong amount, or charges to the wrong account.

The Defense Finance and Accounting Service (DFAS) uses two versions of the Computerized Accounts Payable System (CAPS) to make vendor payments for the Army and several Defense agencies. During FY 2000, DFAS made about 902,000 vendor payments, valued at \$13.7 billion, using CAPS. On April 1, 2001, the Director, DFAS, capitalized all commercial payment resources under the Director, Commercial Pay Services. This is the second in a series of audit reports addressing the controls over CAPS.

**Objectives.** Our objectives were to evaluate the controls associated with making payments using CAPS and progress in transitioning to the Defense Procurement Payment System. This report focuses on the controls associated with making vendor payments. We also evaluated the effectiveness of the management control program as it related to making vendor payments using CAPS.

**Results.** DFAS field sites did not implement effective and consistent internal controls to detect and correct improperly supported or erroneous payments. As a result, DFAS made at least \$13.2 million in duplicate payments, an estimated 30,584 payments in the wrong amounts, and other vendor payments that did not comply with 5 Code of Federal Regulations Part 1315 (finding A).

Access to the two versions of CAPS was not adequately controlled and monitored. System access controls did not properly segregate duties, access to payment functions was not consistently assigned to payment technicians at DFAS field sites, and remote users were given inappropriate access to CAPS for Windows. As a result, the system was susceptible to improper and unauthorized use and individual users could circumvent the requirements of 5 Code of Federal Regulations Part 1315 (finding B).

DFAS field sites frequently made erroneous payments and other payments that were not fully supported by proper documents. We estimate that 181,406 of the 236,940 vendor payments made by DFAS field sites for the Army and Defense agencies from May 1 through July 31, 2000, lacked at least one element of support required by 5 Code of Federal Regulations Part 1315. We also estimate that 30,584 payments were in the wrong amounts. As a result, DoD managers assumed an increased risk that payments were not being made in compliance with the Prompt Payment Act. In addition, resources were diverted from their intended use due to efforts to correct duplicate



payments and other erroneous payments (finding C). These deficiencies constitute a material control weakness. See Appendix A for details on the management control program as it relates to controls over vendor payments.

**Summary of Recommendations.** We recommend that the Under Secretary of Defense (Comptroller), in coordination with DFAS, develop and incorporate into DoD Regulation 7000.14-R, volume 10, standard business rules for making vendor payments that incorporate the requirements of 5 Code of Federal Regulations Part 1315, the Debt Collection Improvement Act of 1996, and recent changes to the Federal Acquisition Regulation. We recommend that DFAS develop effective programs for identifying and correcting problems in making vendor payments. We also recommend that DFAS establish standard system access profiles, make needed system changes, and develop plans to use other than the disk operating system version of CAPS if system access controls can not be improved and to overcome obstacles that prevent the automated interfacing of data into CAPS for Windows.

We recommend that the Army, in coordination with DFAS, train personnel at designated billing offices and Army receiving activities on the standards for properly date-stamping documents and receiving and accepting goods and services. We recommend that DFAS improve the accuracy of payments by directing field sites to follow the requirements for computing payment due dates. We also recommend that the Army direct contracting offices to improve the use of delivery orders and comprehensiveness of contracting documents.

**Management Comments.** The Acting Deputy Chief Financial Officer stated that DoD Regulation 7000.14-R was being changed to incorporate 5 Code of Federal Regulations Part 1315 and the Debt Collection Improvement Act of 1996. However, the development of standard business rules for making vendor payments and a completion date for issuance of the revised guidance was not addressed. In commenting for DFAS, the Director, Commercial Pay Services, partially agreed with most recommendations, but did not agree to perform frequent post-payment reviews; remove remote system access to update information in CAPS for Windows; discontinue using Standard Form 1034 as an invoice, receiving report, and obligation document; and establish reasonableness standards for receipt and acceptance dates on receiving reports. The Deputy Assistant Secretary of the Army (Financial Operations) agreed to issue detailed guidance on processing receiving reports. The Assistant Secretary of the Army (Acquisition, Technology, and Logistics) did not provide comments on the draft report. See the Finding section of the report for a discussion of management comments and the Management Comments section for a complete text of the comments.

**Audit Response.** The Under Secretary of Defense (Comptroller) comments were partially responsive. However, further comments are needed to address the need to develop and incorporate standard business rules for making all types of vendor payments in DoD Regulation 7000.14-R, volume 10. DFAS comments were generally responsive. However, additional actions need to be taken to improve the internal control environment when making vendor payments using CAPS. We request that DFAS reconsider its position regarding the frequency of post-payment voucher reviews, removing remote system access to update information in CAPS for Windows, limiting the use of Standard Form 1034, and working with the Army to establish reasonableness standards for receipt and acceptance dates on receiving reports. We request that the Under Secretary of Defense (Comptroller), the Assistant Secretary of the Army (Acquisition, Technology, and Logistics), and DFAS provide comments on the final report by May 6, 2002.

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## Background

**Vendor Payments.** As a general rule, payments must be supported by an obligating document (contract, purchase order, or other document obligating DoD to pay for goods or services), an invoice, and a receiving report. The current vendor payment process depends on the receipt and processing of hard-copy documents. Technicians review supporting documents for accuracy and completeness before entering them into the Computerized Accounts Payable System (CAPS). Certifying officers should compare the payment vouchers to the supporting invoices, receiving reports, and contract or obligation documents to ensure the accuracy of the payment information before approving the vouchers for payment. Following certification, a payment voucher is created and the payment information is loaded into the disbursing system. The disbursing system uses the payment transactions generated by CAPS to make disbursements.

**Automated Systems for Making Vendor Payments.** The Defense Finance and Accounting Service (DFAS) uses 15 different systems to make vendor payments. Two versions of CAPS are used to make vendor payments for the Army and Defense agencies. Eight DFAS field sites used CAPS for Windows (CAPS[W]) to make vendor payments. The disk operating system version of CAPS (CAPS Clipper) was used by DFAS Europe, Kaiserslautern, Germany; DFAS Rock Island, Rock Island, Illinois; DFAS St. Louis, St. Louis, Missouri; the 54 United States Property and Fiscal Offices (USPFOs); and several other DoD organizations. The two versions of CAPS receive data primarily from manual sources. CAPS uses both automated and manual controls to maintain accurate and complete data. DFAS initially planned to replace CAPS with the Defense Procurement Payment System (DPPS) in 2001. As of December 2001, the plan was to begin transitioning from CAPS to DPPS in October 2003.

**Realignment of Vendor Payment Operations.** On March 29, 2001, the Director, DFAS, announced the capitalization of all commercial payment resources under the commercial pay business line. Effective April 1, 2001, the Director, Commercial Pay Services, became responsible for the commercial pay business line. This business line is comprised of two product lines (contract pay and vendor pay). The vendor pay product line encompasses entitlement determination for contracts not administered by the Defense Contract Management Agency, transportation payments, and miscellaneous payments to businesses and individuals. Before April 1, 2001, DFAS Indianapolis was primarily responsible for overseeing operations at organizations that made vendor payments for Army customers using CAPS.

**Related Audit Reports.** In General Accounting Office (GAO) Report No. GAO/AIMD-98-274, "Improvements Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998, GAO recommended that the Director, DFAS, strengthen payment processing controls by establishing separate organizational responsibilities for entering payment data and revising vendor payment access levels to correspond with the new structure. In Inspector General, DoD, Report No. D-2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000, we recommended additional improvements in the processing of vendor payments using the

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Integrated Accounts Payable System. We also reported that significant actions had been taken to establish separate organizational responsibilities for entering payment data and revising vendor payment access levels to correspond with the new structure. In Inspector General, DoD, Report No. D-2002-008, "Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Kansas City," October 19, 2001, we concluded that the structure and business practices of the vendor payment office at DFAS Kansas City did not provide efficient and effective controls over vendor payments. In addition, access over CAPS(W) needed improvement and vendor payments were often not properly supported.

**Basic Guidance.** The principal guidance used for making payment to vendors is the Prompt Payment Act (PPA), as implemented by the Office of Management and Budget (OMB) in 5 Code of Federal Regulations (C.F.R.) Part 1315, "Prompt Payment; Final Rule," September 29, 1999. 5 C.F.R. Part 1315 identifies documentation requirements for supporting vendor payments and rules for computing payment due dates. The PPA and supporting documentation requirements are further described in the Federal Acquisition Regulation (FAR) subpart 32.9, "Prompt Payment;" Defense Federal Acquisition Regulation Supplement (DFARS) subpart 232.9, "Prompt Payment;" and DoD Regulation 7000.14-R, volume 10, "Contract Payment Policy and Procedures," November 1999. Although 5 C.F.R. Part 1315 amended the requirements of the PPA when it was issued on September 29, 1999, FAR subpart 32.9 was not updated until December 18, 2001. DoD Regulation 7000.14-R, volume 10, has not yet been updated to comply with 5 C.F.R. Part 1315 requirements.

DoD Regulation 7000.14-R, volume 5, "Disbursing Policy and Procedures," chapter 33, "Accountable Officials and Certifying Officers," August 1999, provides guidance for appointing certifying officers, outlines the responsibilities of certifying officers, and requires post-payment reviews of certified payments. The Debt Collection Improvement Act of 1996 requires payments by Electronic Funds Transfer (EFT). 31 C.F.R. Part 208, "Management of Federal Agency Disbursements; Final Rule," Section 208.4, "Waivers," September 25, 1998, allows specific waivers to the EFT requirements.

## Objectives

Our objectives were to evaluate the controls associated with making payments using the CAPS and progress in transitioning to DPPS. This report focuses on the controls associated with making vendor payments. We also evaluated the effectiveness of the management control program as it related to making vendor payments using CAPS. See Appendix A for a discussion of the audit scope and methodology and our review of the management control program. See Appendix B for a summary of prior coverage.

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## **A. Standardizing the Processing of Vendor Payments**

DFAS field sites did not implement effective and consistent internal controls to make properly supported vendor payments and detect and correct improperly supported or erroneous payments. Problems continued to exist because:

- DFAS did not develop a standard vendor payment office structure at field sites using CAPS,
- standard business rules were not developed to control and review supporting documents and payment processing, and
- efforts to improve the vendor payment process were not consistently effective.

As a result, DFAS made at least \$13.2 million in duplicate payments, an estimated 30,584 payments in the wrong amounts, and other vendor payments that did not comply with 5 C.F.R. Part 1315.

### **Internal Control Environment**

GAO Report No. GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," November 1, 1999, defines internal control as an integral component of an organization's management. Public law and regulations are key considerations in developing business rules for making vendor payments. Business rules should ensure a strong internal control environment and adherence to public laws governing the processing of vendor payments.

### **Developing a Standard Vendor Payment Structure**

DFAS did not establish a standard office structure at field sites making vendor payments using CAPS. The nine DFAS field sites we visited between August 2000 and March 2001 had different office structures and vendor payment processes. The lack of a standard structure and consistent business rules for making vendor payments contributed to a weak internal control environment in which improperly supported and erroneous payments were made. The use of a standard vendor payment structure will also assist with transitioning DFAS field sites to an operating environment that uses DPPS. A detailed discussion of a standard office structure for making vendor payments is in Appendix C. Efficient and accurate processing of vendor payments requires a standard office structure that incorporates strong business rules. Vendor payment duties should be segregated to provide adequate checks and balances in the payment process while maintaining positive control over supporting documents. A standard structure also permits the development of system access profiles that match the duties assigned to each individual (finding B). In

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response to Inspector General, DoD, Report No. D-2002-008, the Director, Commercial Pay Services, stated that the commercial pay business line would develop a standard organization structure for use at all vendor pay sites. Consequently, we did not make that recommendation in this report.

## **Developing Standard Business Rules**

DFAS did not develop standard business rules to achieve effective control over the documents supporting vendor payments and consistency in making vendor payments. Standard business rules should implement the requirements in the Debt Collection Improvement Act of 1996, 5 C.F.R. Part 1315, and the FAR. Once developed, the business rules should be incorporated in DoD Regulation 7000.14-R, volume 10. Standard business rules should complement a standard office structure and define a business environment for screening, tracking, controlling, entering, prevalidating, certifying, and researching problems with vendor payments.

**Mailroom Operations.** DFAS did not establish and enforce standard business rules for receiving and date-stamping all vendor payment documents. Mailrooms need to control the receipt of documents supporting vendor payments and date-stamp documents with the actual dates of receipt.

**Proper Receipt of Vendor Payment Documents.** Mailrooms at the nine field sites were not always secure and did not receive all incoming vendor payment documents. For example,

- The mailroom at DFAS Norfolk, Norfolk, Virginia, was in an unsecured location. Anyone could add, alter, or remove documents without being detected. During our visit, DFAS Norfolk took actions to secure the mailroom.
- DFAS San Antonio, San Antonio, Texas, had circumvented the controls of the RightFAX server by allowing facsimile messages to be received outside of the RightFAX server. If used correctly, the RightFAX server allowed the receipt of incoming faxes outside the mailroom because the server established control over incoming documents by recording and tracking when a message was actually received. A DFAS Internal Review team reported on April 26, 2001, that documents circumventing the RightFAX server were printed without annotating the proper receipt date.

Instead of routing all facsimiles directly into its Electronic Document Management (EDM) fax server, the DFAS Directorate of Network Operations (DNO), Indianapolis, Indiana, received documents supporting vendor payments on facsimile machines located throughout the vendor payment office. This practice circumvented the controls established within EDM to electronically receive, date-stamp, index, and route vendor payment documents. The lack of proper control over the receipt of supporting documents contributed to DFAS DNO making four duplicate payments, valued at about \$2.5 million, from May 1 through July 31, 2000. In all four instances, payments were processed from hard-copy documents that circumvented EDM. Documents were received



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in the vendor pay office, used to make the payments, and then faxed or scanned into EDM. Documents were then indexed and routed to other payment teams that processed the duplicate payments using the supporting documents in EDM. DFAS should establish and enforce standard business rules on how supporting documents will be received within its field sites. These business rules should direct field sites to receive all incoming documents in the mailroom or over the RightFAX server.

**Date-Stamping.** DFAS did not establish business rules for date-stamping incoming vendor pay documents that ensured that all incoming documents were date-stamped with the actual date of receipt. The nine DFAS field sites did not always date-stamp documents immediately upon receipt or with the actual date of receipt. Six of the nine field sites changed date stamps at a specific time each day, regardless of whether all vendor pay documents received that day had been stamped with the actual date of receipt. For example, the mailroom at DFAS Orlando, Orlando, Florida, changed date stamps at noon daily. Mail received by the mailroom after noon was date-stamped with the next business day's date. During the visit, DFAS Orlando changed mailroom procedures to ensure that vendor payment documents were stamped with the actual dates of receipt. Only DFAS St. Louis; DFAS Rock Island; and DFAS Rome, Rome, New York, had procedures in place to ensure that the actual date of receipt was placed on incoming vendor payment documents. These field sites changed the date stamp to the next business day only after all vendor payment documents received reflected the actual date of receipt. DFAS needs to implement standard business rules that ensure that vendor payment documents, especially invoices, are date-stamped with the proper date of receipt.

**Vendor Payment Processing.** DFAS did not establish standard business rules that promoted accurate, consistent, and timely processing of vendor payments. Standard business rules should describe how vendor payment offices should manage documents; describe how to enter, compute, and certify payments; ensure that payments are prevalidated; describe how to add or amend vendor maintenance data; and resolve problems in making vendor payments.

**Document Management.** DFAS had not established consistent business rules that defined procedures on how to properly manage vendor payment documents. Standard document management practices ensure that all documents used to support vendor payments are consistently screened, tracked, and entered in CAPS. Document management practices at the nine DFAS field sites varied significantly. Although seven of the nine DFAS field sites had established a document management section, the technicians in those sections did not effectively or consistently screen, enter, and control documents supporting vendor payments. Document management sections need to be established and staffed with experienced vendor pay technicians and supervisors who are knowledgeable of the requirements for proper supporting documents so they can promptly return improper documents and properly enter documents into CAPS.

**Screening and Returning Documents.** DFAS had not developed or enforced standard business rules for screening and returning all supporting documents that did not meet the requirements in 5 C.F.R. Part 1315, the FAR, and the requirements established to support miscellaneous payments.

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Complete screening and prompt return of improper documents is essential to process properly supported payments, prevent rework, and avoid unnecessary interest penalties. As discussed in finding C, sample payments were frequently not supported by proper invoices, receiving reports, and obligation documents. Inconsistencies existed in how DFAS field sites screened documents and returned them for correction. Some field sites routinely returned documents to originators that did not meet established requirements. However, other field sites often accepted documents with similar errors as proper and used them to support payments. Individuals screening payment documents inappropriately determined that missing or incomplete items of information on documents were only minor administrative errors that should not delay the payments.

**Invoices.** Invoices supporting payments often did not meet the requirements of 5 C.F.R. Part 1315, the FAR, and DoD Regulation 7000.14-R, volume 10 (see Appendix D). Invoices not meeting requirements should be returned to the vendor for correction within 7 days of receipt at either the DFAS field site or the billing office designated in the contract. The practices followed by the nine DFAS field sites for returning improper invoices varied and did not fully comply with established procedures. For example, while DFAS Europe had procedures that required document control technicians to screen and return improper invoices, they were not consistently followed. Instead of returning invoices, vendor pay technicians at DFAS Norfolk changed or added contract numbers on invoices and used the altered documents to process payments. DFAS Rock Island and DFAS St. Louis inappropriately returned invoices to vendors because they had not received receiving reports or contracts. Unless the vendor payment office first verifies that the vendor did not ship the goods or render the service, invoices that are proper for payment should be entered and controlled in CAPS. DFAS needs to establish standard business rules for screening invoices and enforce requirements for returning improper invoices to vendors.

**Receiving Reports.** Vendor payment technicians at all nine DFAS field sites did not adequately review receiving reports to determine whether they met the requirements in 5 C.F.R. Part 1315. Receiving reports missing required information should be immediately returned to receiving activities for correction. Timely return and correction of receiving reports is essential to avoid unneeded rework and unnecessary interest payments.

**Contracts and Authorization Documents.** Only four DFAS field sites had procedures in place for returning incomplete contracts to contracting offices for correction. Contracting information to support vendor payments must meet 5 C.F.R. Part 1315 to properly support a payment. A proper contract or other authorization document obligating the Government to pay an individual or vendor should support every vendor payment. Some contracts did not provide payment terms or an adequate description of the item or services procured. The lack of this information caused technicians to guess what was meant. Contracts were also missing required clauses such as the Central Contractor Registry (CCR)/EFT clause. Authorization documents that supported miscellaneous payments also lacked needed information. Technicians were reluctant to return incomplete contracts to contracting offices. Business rules should require that contracts provide the information contained at 5 C.F.R.



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Part 1315 and as specified for prompt payments in the revised FAR subpart 32.9. Standard business rules should also be established for screening and returning authorization documents that support miscellaneous payments.

**Tracking Documents.** DFAS did not have standard business rules on how to track documents supporting vendor payments received at field sites from the time of receipt until payment. Maintaining positive control over supporting documents prevents documents from being lost. Eight of the nine DFAS field sites had methods of tracking documents. However, none of the field sites efficiently and effectively controlled all documents supporting vendor payments. For example,

- DFAS San Antonio used bar codes and scanners that fed information into an access database to track the location of each contract folder.
- DFAS San Antonio did not have a mechanism in place to track invoices, receiving reports, and documents supporting miscellaneous payments.
- DFAS Europe created a database to track supporting documents and contract folders.

Entering information into multiple spreadsheets or a separate database created additional workload that most field sites did not have the staff to support. DFAS Lawton, Lawton, Oklahoma, had the most effective method of maintaining positive control over documents supporting contract payments. DFAS Lawton placed input technicians in the document management area and established a standard of 3 business days for entering documents in CAPS.

DFAS should implement an efficient and effective method of tracking supporting documents received by the field sites. The method should provide field sites with the ability to track all supporting documentation throughout the entire payment process without creating an unmanageable workload for the vendor payment office.

**Data Entry.** DFAS field sites did not enter payment information into CAPS consistently, accurately, or timely. At the nine DFAS field sites, we randomly selected invoices, receiving reports, and obligating documents from the mailroom and traced them through the vendor payment process. The time it took for documents to be entered into CAPS ranged from 1 to 30 days. The lack of effective procedures for entering documents at DFAS field sites significantly contributed to delays in making payments. For example, vendor payment technicians at DFAS Norfolk placed invoices and receiving reports in contract files and did not enter information into CAPS until all documents supporting the payment were received at the field site. The need to manually enter contract information into CAPS was also a factor that delayed the payment process. As discussed in finding B, continuing problems prevent the interface of Army contract data between the Standard Procurement System (SPS) and CAPS. DFAS field sites were also prohibited from using Electronic Document

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Access (EDA)<sup>1</sup> to obtain contract data for entry into CAPS. DFAS Rome had contracting offices that provided reliable contract data in EDA; however, the field site was not permitted to use the data. DFAS should develop and implement standard business rules for entering documents needed to support contract and miscellaneous payments. Standard business rules for entering data into CAPS are necessary to process proper payments, maintain positive control over the payment process, and reduce rework and interest payments.

**Payment Computation.** DFAS did not implement standard business rules for computing payments and ensuring that payments were prevalidated. Segregating the compute function from data entry provides an additional review of the data to ensure that payments are properly supported prior to certification.

**Computing Payments.** DFAS did not establish standard procedures for computing vendor payments. Vendor pay technicians did not consistently review all supporting documents, compare them to the information entered into CAPS, and compute payments for disbursement. Generally, the technicians were not very thorough in their review of payment information. However, at DFAS Lawton, technicians reviewed supporting documents for compliance with the contract, thoroughly reviewed information entered into CAPS for any data entry errors, and verified the vendor EFT information in the Corporate EFT (CEFT) database before computing the payment voucher. The other DFAS field sites did not follow similar procedures.

**Prevalidation of Payments.** DFAS field sites did not establish effective procedures for prevalidating disbursements. DoD Regulation 7000.14-R, volume 3, chapter 11, "Unmatched Disbursements, Negative Unliquidated Obligations, In-Transit Disbursements, and Suspense Accounts," January 2001, requires that disbursements be matched to corresponding obligations recorded in the official accounting records before making payments. DFAS San Antonio stopped prevalidating payments due to backlogs in making payments and staffing issues in the vendor payment area. The other DFAS field sites attempted to prevalidate contract payments, but not all miscellaneous payments. The DFAS field sites that attempted to prevalidate contract payments did not consistently ensure that a corresponding obligation existed in accounting records and had limited assurance that a duplicate payment would not be made. For example,

- DFAS DNO paid a vendor \$1.29 million on June 27, 2000, for contracted services. A second payment was paid on July 19, 2000, for the same amount to the same vendor. The duplicate payment was not identified during the prevalidation process because funds were not reserved in the accounting system when the payment was prevalidated. DFAS DNO subsequently recovered the second payment.

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<sup>1</sup>EDA is an Internet based system designed to replace the paper version of contract documents with an electronic version.

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- DFAS Europe made payments after attempting to prevalidate the payment at least five times, even if the prevalidation report generated by the Vendor Payment Prevalidation Program showed that funds were not available to cover the payment. While four of the payment teams at DFAS Europe used reports generated by the Vendor Payment Prevalidation Program, three other teams manually prevalidated payments by viewing information in the accounting system.

The Vendor Payment Prevalidation Program used by DFAS field sites to prevalidate disbursements was not effective in eliminating problem disbursements and duplicate payments because funds were not reserved in the accounting system at the time the payment was prevalidated. The available fund balance in the accounting system was not reduced until after the payment was actually disbursed and the transaction transferred and recorded in the accounting system. The lag time between the date the payment is prevalidated and the date the disbursement is recorded in the accounting system allows duplicate payments to be made. DFAS must implement standard business rules that include procedures for properly prevalidating all vendor payments.

**Certification of Payments.** DFAS had not developed and enforced standard, effective business rules for certifying vendor payments. Payments need to be properly certified to ensure that all payments are legal, correct, and properly supported before being disbursed.

**Certification Procedures.** Certification procedures varied at the nine DFAS field sites and certifying officials did not ensure that all payments were legal, correct, and proper before being disbursed. Certification officials often did not thoroughly review the documents supporting the vendor payments or check the vendors' EFT information in CAPS against the CCR/CEFT information before certifying each payment. For example:

- DFAS Lawton certified payments that were remotely processed by Army installation personnel without reviewing the supporting documentation that was entered in CAPS and retained at the installations.
- At DFAS Rome and DFAS Europe, certification officials did not review the EFT information in CAPS before certifying the payments.
- Certification officials at DFAS Rock Island only compared information in CAPS to the information on the disbursement voucher before uploading the payment from CAPS to the Operational Data Store (ODS) for subsequent disbursement in the Standard Financial System Redesign.

Supporting documentation was not reviewed for compliance and the certifying officials' signatures were not affixed to the vouchers. As discussed in finding C, certification officials often did not detect improperly supported and erroneous payments. DFAS should have established and enforced strict business rules to ensure that certification officials are thoroughly reviewing information supporting payments and signing all disbursement vouchers.

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**Upload of Payment Data to ODS.** DFAS did not establish standard procedures for transferring information on certified payments from CAPS to ODS and providing assurance to the disbursing officer that all payments were certified. Payment information was transferred from CAPS to ODS by downloading the information from CAPS to a disk and uploading information from the disk to ODS. The payment information downloaded from CAPS to the disk was not an encrypted file. Consequently, payment information on the disk could be altered without having to be recertified before uploading it to ODS. Once the payment information was uploaded to ODS, it was electronically transferred to the Standard Financial System Redesign and disbursed by the central disbursing office. Individuals at the DFAS field sites responsible for transferring payment information between CAPS and ODS were either vendor pay technicians, team supervisors, or systems personnel. The payment office did not provide evidence to the disbursing officer in the central disbursing office that payments had been certified. The disbursing officer relied on the system data as proof of certification even though it was possible to alter the information on the disk. To improve the integrity of the certification and upload process, certification officials should be responsible for transferring the payment information from CAPS to ODS and provide the disbursing officer with proof that the transferred payments have been certified.

**Reports and Reconciliation.** DFAS did not establish standard business rules at field sites for obtaining documents needed to make vendor payments and updating vendor remittance tables within CAPS. Business rules should provide guidelines for the reports and reconciliation section to work with the Army and Defense agencies to obtain needed documents and to input and maintain vendor information in CAPS.

**Obtaining Documents.** Procedures for obtaining missing supporting documents differed at each DFAS field site and were not always effective. Some field sites emphasized the need to conduct research and obtain missing supporting documents by designating individuals or separate teams to complete research and obtain supporting documents. Creating a separate team or designating an employee to conduct research proved more efficient and effective than having the individuals responsible for processing payments also conduct research. Conducting research and contacting customers was time-consuming, kept vendor pay technicians from processing payment information, and slowed down the payment process. The time consumed in accomplishing research and the delay in the payment can result in unnecessary interest payments.

**Invoices Without Receiving Reports.** DFAS did not have standard procedures in place to aggressively work with receiving activities to obtain missing documents. A significant cause of interest payments made by field sites was due to the inability to obtain proper receiving reports from receiving activities at installations. CAPS generated a listing called "Invoices Without Receiving Reports." The listing identified invoices that had been received but were not scheduled for payment until receipt of corresponding receiving reports. The use of the listing varied significantly at each DFAS field site we visited. The field sites that aggressively worked the listing and communicated effectively with customers had the lowest number of invoices over 30 days old. DFAS Rome and DFAS St. Louis had individuals dedicated

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to working the listing, sending information to the appropriate activities, and calling and requesting information from receiving activities. Field sites such as DFAS San Antonio and DFAS DNO, did not aggressively work the listing. DFAS and Army financial managers need to work together to ensure that receiving reports for goods and services are obtained promptly upon receipt and acceptance of goods and services.

**Updating Vendor Remittance Data.** DFAS field sites were inconsistent in verifying information in the CCR/CEFT database and ensuring that payments were sent as required via EFT. Technicians at DFAS DNO and DFAS Norfolk inappropriately sent check payments to vendors who should have been registered in the CCR/CEFT database. Sending check payments to vendors who were not exempt from registering in the CCR/CEFT database was contrary to the Debt Collection Improvement Act of 1996. Although DFAS Norfolk and DFAS DNO alerted vendors of the need to register in the CCR, neither field site withheld payments or followed up to ensure that vendors registered after receiving the notifications. DFAS Rome created a separate EFT team to process and research vendor information; however, CAPS access was not appropriately restricted. Not verifying and obtaining vendor information from the CCR/CEFT database for all payments increased the risk that payments would be made to incorrect payees. Business rules should require that technicians verify information in the CCR/CEFT database and ensure that payments are sent as required via EFT.

**Summary of the Need for Standard Business Rules.** DFAS needs to establish and enforce standard business rules to create an environment conducive to processing accurate and proper payments. The standard business rules should complement a standard office structure and be incorporated in DoD Regulation 7000.14-R, volume 10. Business rules should include procedures for receiving and date-stamping incoming documents in a secure location outside the vendor payment office. Personnel in vendor payment offices should also ensure that documents supporting payments are adequately screened and controlled and payments are computed correctly and properly prevalidated. Organizationally independent individuals should certify that payments are legal, proper, and correct for payment. Business rules should also define standard procedures for transferring payment data between CAPS and ODS and verifying that payments transmitted to disbursing officers were certified. Methods for verifying information in the CCR/CEFT database and ensuring that payments are sent as required via EFT should also be defined in business rules. Enforcement of standard business rules helps to ensure that vendor payments are processed consistently and accurately and reduces the risk of making erroneous or improperly supported payments.

## **Monitoring the Payment Process**

DFAS did not take advantage of best business practices and management oversight was not effective in detecting control weaknesses and improving the vendor payment process. In addition, managers were not provided with the information they needed to identify and correct weaknesses in the vendor payment process. As a result, DFAS field sites continued to make duplicate and improperly supported payments and worked individually to develop monitoring

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tools. Oversight tools and programs should be implemented that detect weaknesses in the processing of vendor payments, perform root cause analysis, and develop appropriate corrective actions.

**Local Initiatives.** DFAS did not share best business practices developed by field sites. Many field sites developed effective reporting and monitoring tools designed to improve business operations. For example, DFAS Rome focused on obtaining missing receiving reports and developed reporting tools to effectively communicate and electronically submit information to receiving activities. DFAS Orlando focused on the importance of limiting systems access and developed a computer program to streamline system access reviews. Unfortunately, we did not find that these locally-developed tools were shared with other field sites. Reporting and monitoring tools should be shared with other field offices in order to improve the processing of vendor payments.

**Identifying and Tracking Payment Problems.** DFAS did not effectively implement the software application that was designed to identify potential duplicate payments, perform frequent and thorough reviews of payments, and track progress in reducing erroneous payments.

**Predator.** DFAS San Antonio was the only field site properly administering the Predator software application. The other eight DFAS field sites either were not using the software application or were not using it correctly. While we could not determine the total dollar value of duplicate payments made by the DFAS field sites, we identified at least \$13.2 million in duplicate payments.

- DFAS Europe claimed the software application was not working and had stopped generating Predator reports. We obtained a Predator report that DFAS Europe did not analyze and easily identified a potential duplicate payment of \$120,344.80. DFAS Europe subsequently voided the scheduled payment. The potential existed that many additional duplicate payments were on the report. In its draft report, "Operational Review Europe," dated May 27, 2001, the DFAS Internal Review team identified that DFAS Europe had made 226 duplicate payments, valued at about \$2 million. Many of the duplicate payments were on the Predator report we reviewed.
- Instead of running Predator daily, DFAS DNO ran the software application on a monthly basis. The Predator report provided to us identified six actual duplicate payments totaling \$7,662.57. Based on other reports obtained from DFAS DNO, about \$8.5 million in duplicate payments were made from March 1999 through May 2001. An additional four duplicate payments, valued at \$2.5 million, discussed on page 4 of this report were not identified on the Predator report or the reports obtained from DFAS DNO.
- Individuals responsible for administering Predator at DFAS Rock Island had not been properly trained. Consequently, dates were incorrectly entered in the search parameters when the software

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application was used. After they adjusted the search parameters at our request, DFAS Rock Island identified six duplicate payments totaling \$194,418.24.

When administered properly, Predator is effective in identifying potential duplicate payments. Potential duplicate payments must be researched and appropriate actions taken on each payment. The tools in Predator should be used to track results and generate reports useful to management in identifying and correcting payment problems. DFAS should send out a team to each of the field sites to ensure that the Predator application is properly installed, provide training to individuals running Predator, and assist in researching the results of the initial use of the software application.

**Post-Payment Voucher Reviews.** DFAS did not perform adequate reviews to ensure that certified payments were legal, proper, and correct for payment. DFAS Indianapolis designated a team to conduct post-payment voucher reviews at each field site once a year. Statistical samples of payments were selected from one quarter of the fiscal year and reviewed by the team for compliance with the DoD Regulation 7000.14-R, volume 10; DFAS Indianapolis Regulation 37-1, chapter 9, "Vendor Pay," January 2000; and the FAR Part 32.905(F). While DoD Regulation 7000.14-R, volume 5, does not identify the frequency of the post-payment reviews, we believe that they should be performed monthly to ensure that payment errors are promptly identified, training is provided in areas where problems are recurrent, and progress in correcting problems can be tracked.

**Performance Measures.** DFAS did not track the number and dollar value of duplicate payments identified by the Predator software application and erroneous vendor payments actually made by field sites. Performance Management Indicator reports were designed by DFAS to monitor and help improve network operations. The monthly reports completed by each field site identified such items as the number of overaged invoices; the number of contracts, invoices, and receiving reports entered in CAPS; interest penalties; and discounts lost and taken. DFAS set standards for items it monitored and required field sites failing to meet standards to develop a plan detailing the problem areas, causes, planned corrective actions, and expected dates of resolution. DFAS did not track duplicate payments identified by the Predator software application and other erroneous payments made by field sites. Without a means of measuring the extent of the problems, DFAS managers cannot determine if the problems are significant enough to require corrective action, how much to spend to correct the problems, or the impact of the actions taken. DFAS should require the reporting of information on duplicate payments identified by the Predator software application and other erroneous payments made by field sites. The results should be used to gain an understanding of recurring problems and to develop corrective actions.

## Summary

A standard office structure and standardized business rules for making vendor payments would promote a strong internal control environment and reduce the number of improperly supported payments and the payments that should not



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have been made. In such an environment, documents will be controlled better, information in CAPS will be properly supported, and vendors will be paid more timely and for the correct amount. DFAS and the Army must make a concerted effort to ensure that proper receiving reports are obtained promptly upon receipt and acceptance of goods and services. To maintain proper segregation of duties, DFAS should make sure that no one individual can enter or direct the entry of all data needed to make payments and certification officials are organizationally independent. More also needs to be done to take full advantage of best business practices and improve visibility over problems in processing vendor payments.

## **Recommendations, Management Comments, and Audit Response**

**A.1. We recommend that the Under Secretary of Defense (Comptroller), in coordination with the Director, Commercial Pay Services, develop and incorporate into DoD Regulation 7000.14-R, volume 10, standard business rules for making vendor payments. The rules must incorporate the requirements of 5 Code of Federal Regulations Part 1315, the Debt Collection Improvement Act of 1996, and pending changes to the Federal Acquisition Regulation.**

**Under Secretary of Defense (Comptroller) Comments.** The Acting Deputy Chief Financial Officer stated that his office has begun to revise DoD Regulation 7000.14-R, volume 10, to incorporate pertinent aspects of 5 C.F.R. Part 1315 and the Debt Collection Improvement Act of 1996. The updated DoD Regulation 7000.14-R, volume 10, is to be issued following receipt and consideration of the remaining comments from the DoD Components.

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that DFAS would work with the Under Secretary of Defense (Comptroller) on appropriate changes to DoD Regulation 7000.14-R, volume 10. The Director stated that a vendor pay standardization study was conducted that also recognized the need for standard practices. The Director stated that detailed processes unique to specific vendor payment offices would not be incorporated into DoD Regulation 7000.14-R, volume 10.

**Audit Response.** The Under Secretary of Defense (Comptroller) comments were partially responsive. The pending change to DoD Regulation 7000.14-R, volume 10, should incorporate the requirements in 5 C.F.R. Part 1315 and the Debt Collection Improvement Act of 1996. However, DoD Regulation 7000.14-R, volume 10, should also incorporate standard business rules for screening, tracking, controlling, entering, prevalidating, certifying, and researching problems with most types of vendor payments. The DFAS comments were responsive. Publishing guidance on unique processes in another document would be appropriate. We request that the Under Secretary of Defense (Comptroller) provide additional comments that address standardizing business rules in DoD Regulation 7000.14-R, volume 10. The additional comments should also provide an estimated completion date for the actions taken or planned.



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**A.2. We recommend that the Director, Commercial Pay Services, improve the identification and correction of problems in making vendor payments by:**

**a. Identifying the best practices used by vendor payment offices to detect weaknesses in the vendor payment process and designating those best practices as standard reporting and monitoring tools.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that 20 recommended changes for standardization resulted from the vendor pay standardization study. Vendor Pay Support Directors will implement agreed-upon recommendations. The review of best practices will be an ongoing topic of discussion at the quarterly meetings with Vendor Pay Support Directors.

**b. Verifying that the Predator software application has been properly installed at all field sites and providing individuals who run the Predator software with sufficient training.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that the Predator software application produces a high number of potential duplicate payments that prove to be valid payments after taking an inordinate amount of time to review. The Director will compare the edits and query capabilities in the Standard Account and Reporting System One Pay system to the Predator software to determine whether the Predator software should be fielded by the Navy support sites. The Director also stated that improvements to the Predator software would be made in May 2002.

**Audit Response.** The DFAS comments were partially responsive. While many of the reports generated by the Predator software application were voluminous, reviews at the DFAS field sites showed that the Predator software was not being used properly and individuals responsible for using the software were not adequately trained on its use. As part of the effort to improve the ability of the Predator software to screen potential duplicate payments, DFAS should ensure that each field site properly installs the upgraded software and users understand how to use it. We request that DFAS reconsider its position and provide additional comments addressing the need to properly install the software and provide sufficient training to users.

**c. Performing monthly post-payment voucher reviews to ensure that payments are legal, proper, and correct for payment.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that DoD Regulation 7000.14-R, volume 5, does not establish the frequency of the post-payment reviews. The Director stated that annual reviews are scheduled at all vendor pay sites. When the error rate drops below 95 percent then followup reviews will be conducted.

**Audit Response.** The DFAS comments were partially responsive. In response to Inspector General, DoD, Report No. D-2002-008, the Director, Commercial Pay Services, stated that quarterly reviews would revert to monthly if an unacceptable level of compliance occurred. Post-payment reviews that assess

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strict compliance with the requirements in 5 C.F.R. Part 1315 should be performed at least quarterly. Field sites not meeting these requirements should require more frequent review until the reviews indicate that acceptable levels of compliance have been achieved. We request that DFAS reconsider its position and provide additional comments to the final report.

**d. Establishing performance measures that will track the number and dollar value of duplicate payments and other erroneous payments.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that new performance measures indicators would be developed by June 28, 2002, to monitor duplicate and other erroneous payments.

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## **B. System Access and Other Control Issues**

Access to CAPS(W) and CAPS Clipper was not adequately controlled and monitored. System access controls did not properly segregate duties, access to payment functions was not consistently assigned to payment technicians at DFAS field sites, and remote users were given inappropriate access to CAPS(W). Problems existed because:

- standard access profiles were not centrally developed, maintained, and controlled to complement a standard business structure;
- DFAS did not approve funding for the changes needed to correct known system control weaknesses;
- system functionality did not provide for remote user access; and
- effective system interfaces did not exist.

As a result, CAPS was susceptible to improper and unauthorized use and individual users could circumvent the requirements of 5 C.F.R. Part 1315.

### **Guidance and System Functionality**

GAO Report No. GAO/AIMD-00-21.3.1, "Standards for Internal Control in the Federal Government," requires access restrictions and segregation of key duties in authorizing, processing, recording, and reviewing transactions. The National Computer Security Center has issued guidance on controlling passwords and assessing controlled access protection. The functionality of CAPS(W) provides DFAS with the flexibility to assign specific payment functions to users based on assigned responsibilities of vendor payment personnel. The payment functions can be further limited to allow a user to only add, delete, update, or inquire about the payment data in CAPS(W). DFAS used CAPS Clipper to make payments at the DFAS field sites in Europe, Rock Island, and St. Louis because CAPS(W) could not interface with certain accounting systems or handle foreign currency transactions. The 54 USPFOS also used CAPS Clipper to make vendor payments.

### **System Access Within CAPS(W)**

System access profiles were not centrally controlled and monitored. The system access profiles developed by the DFAS field sites using CAPS(W) did not adequately segregate payment functions. To ensure strong management control over the vendor payment process, DFAS needs to complement the development of a standard business structure and business rules with system access profiles

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that sufficiently segregate duties for making payments. The profiles should segregate the ability to enter payment data, compute payments, and certify payments and be consistently assigned at each field site. In addition, the ability to add or update data within the vendor maintenance function must be segregated from the other functions and be granted to a limited number of individuals.

**System Access Profiles.** DFAS system and vendor payment managers did not establish standard system access profiles or take other appropriate actions to adequately control access to CAPS(W). System managers at DFAS Indianapolis allowed each of the field sites using CAPS(W) to develop and maintain their own system access profiles. In addition, system access was not centrally monitored to ensure adequate separation of duties.

**Initial Site Visit.** In August 2000, we found that system access at DFAS Norfolk was not adequately controlled. Four users had been granted the system access that permitted them to enter payment information, compute payments, and certify the payments. Eighteen payment technicians could add or update the vendor payment data and compute the payment without another individual intervening. Because technicians had access to all payment functions, they could also adjust the payment terms to prevent the payment from paying interest. An additional 37 individuals could change where a payment was sent and certify the payment. These individuals could redirect a vendor payment without another individual intervening in the process.

**Discussions with DFAS Managers.** In September 2000, we began to hold meetings with system and vendor payment managers at DFAS Indianapolis to discuss concerns with the lack of segregation of duties. We concluded that centrally developed system access profiles needed to be established to better segregate the payment functions assigned to technicians at field sites using CAPS(W). DFAS managers agreed with the need to establish standard system access profiles. We discussed the need to establish nine system access profiles to segregate the following functions within CAPS(W).

**Invoice Maintenance.** This function allows the user to enter, update, or delete the data from an invoice. Individuals with access to this payment function should not be able to certify payments or add and update vendor maintenance data.

**Receiving Report Maintenance.** This function allows the user to enter, update, or delete information from the receiving report. Individuals with access to this payment function should not be able to certify payments or add and update vendor maintenance data.

**Purchase Order Maintenance.** This function allows the user to enter, update, or delete contract and authorization data in CAPS(W). Individuals with this access should not be able to compute or certify payments or add and update vendor maintenance data in CAPS(W).

**Vendor Maintenance.** This function allows the user to enter, update, and delete the vendor maintenance data needed to process EFT

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information and check remittance data in CAPS(W). Since individuals with this access can direct where a payment is sent, they should not be able to certify payments or alter any of the other data needed for making payments.

**Compute.** This function allows the user to combine the data entered from invoices, receiving reports, and contracts or other authorization documents and compute the payment due date and any interest payments owed the vendor. This function should be assigned to technicians within the contract or miscellaneous payment teams who can compare the data entered by the input technician and ensure that the data meet the requirements for payment. These technicians should also verify that EFT information and check remittance data are correctly entered by comparing it to the CEFT database. However, they should not be able to update payment data within CAPS(W) or certify the payment.

**Certify.** This function allows the user to certify the payment and upload the payment to disbursing. This function should be assigned to users that are approved certification officials. Certification officials should not be able to add, update, delete, or compute the payment data.

**System Access Profiles at DFAS Field Sites.** DFAS managers took limited actions to ensure that the field sites implemented the standard system access profiles or to otherwise ensure that system access controls within CAPS(W) contributed to proper segregation of duties. DFAS Orlando was the only field site to implement the system access profiles. The other DFAS field sites continued to develop unique system access profiles. Significant inconsistencies existed in how the field sites assigned the payment functions key to segregating the payment process. For example, while the vendor payment operations in DFAS Orlando and DFAS San Antonio were similar in size, DFAS San Antonio assigned significantly more people the ability to perform key payment functions. The numbers of individuals assigned the key payment functions at DFAS DNO, DFAS Lawton, and DFAS Rome also differed significantly even though they had vendor payment operations that were similar in size. As shown in Table 1, inconsistencies existed in the assignment of the key payment functions at each of the DFAS field sites visited from August 2000 through March 2001.

Table 1. Inconsistencies in Assignment of Key Payment Functions							
DFAS Field Site	Number of Users	Invoice Maintenance	Receiving Report Maintenance	Purchase Order Maintenance	Vendor Maintenance	Compute	Certify
DNO	255 <sup>1</sup>	86	150	188	56	80	44
Lawton	219 <sup>2</sup>	85	127	50	105	93	42
Lexington	56	35	35	35	16	32	6
Norfolk	77 <sup>3</sup>	22	22	22	59	56	41
Orlando	124 <sup>4</sup>	35	36	11	6	49	8
Rome	111	68	68	97	97	67	39
San Antonio	700 <sup>5</sup>	62	467	213	325	210	105
Seaside	17	16	16	16	7	11	4
<ol style="list-style-type: none"> <li>1. Includes 64 remote users granted access to enter receiving reports and contracts.</li> <li>2. Includes 139 remote users granted access to enter invoices, receiving documents or certify payments.</li> <li>3. Includes 42 remote users granted access to 8 users to enter invoices, receiving reports, purchase order and 34 with all access.</li> <li>4. Includes 23 remote users granted access to enter data or certify payments. Access was removed prior to site visit. Vendor maintenance includes 4 remote users.</li> <li>5. Includes 506 remote users granted access to enter or certify data.</li> </ol>							

Most DFAS field sites limited the ability to enter invoices and receiving reports to technicians assigned to a vendor payment team. However, DFAS San Antonio provided 254 individuals at various installations with the ability to enter receiving reports into CAPS(W). Despite granting the remote access, DFAS San Antonio had problems obtaining receiving reports because the individuals with the remote access did not use the access granted to them to enter the receiving report data. In addition, DFAS field sites provided between 2 and 325 individuals with the ability to direct where payments could be sent. DFAS field sites also had not appropriately limited the number of users who could certify payments. Three field sites allowed only supervisors or other appointed officials access to certify payments and limited access to no more than eight users. Other field sites allowed up to 105 users to certify payments, including system management personnel, remote users, and data entry clerks.

**Changes to Initial System Access Profiles.** The invoice maintenance function, receiving report maintenance function, and purchase order maintenance function could be combined into one function provided that the same individuals did not also have the ability to compute payments. DFAS Lawton developed system access profiles to separate who could enter data, compute payments, and certify contract payments. However, similar requirements were not implemented for segregating duties for making

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miscellaneous payments. A miscellaneous payment function had been designed to provide users with the ability to enter all payment information, compute the payment, and enter, update, and delete vendor maintenance data. At a minimum, separate individuals should be responsible for entering payment information, computing the payment, and certifying the payment. As discussed in Inspector General, DoD, Report No. D-2002-008, the ability to delete data should be limited to only a few supervisory personnel who can ensure that a proper audit trail is maintained.

**System Access Profiles at Smaller Field Sites.** DFAS managers expressed concerns that standard system access profiles would not be practicable at field sites with smaller vendor payment offices. They stated that these sites did not have sufficient personnel to segregate the ability to enter, compute, and certify data. Reviews of system access at the field sites (DFAS Lexington, Lexington, Kentucky; DFAS Norfolk; and DFAS Seaside, Seaside, California) with smaller offices for making vendor payments using CAPS(W) showed that these offices probably did not have sufficient personnel to properly segregate duties if the standard system access profiles were implemented. However, the need still existed to properly segregate payment functions to minimize the risk that erroneous payments could be made without detection. DFAS managers should assess vendor payment operations at field sites with small vendor payment offices and determine whether it would be more cost-effective to increase the staffing levels at these sites or move the workload to a field site capable of properly segregating payment duties.

## **Remote Access to CAPS(W)**

Only three of the eight DFAS field sites making payments using CAPS(W) restricted access to individuals at the field site. As discussed in Inspector General, DoD, Report No. D-2002-008, the system functionality of CAPS(W) did not restrict remote users to only transactions related to their organization. Consequently, individuals granted the ability to enter payment data or certify a payment for one site could perform the same function on other payments within the CAPS database. DFAS should remove the ability to update and certify information in CAPS(W) from all remote users until the system can provide proper segregation of duties and security over remotely entered data.

## **Use of CAPS Clipper**

The Clipper version of CAPS did not have the functionality necessary to properly segregate payment functions. In addition, CAPS Clipper allowed certain users to alter payment data during the computation process. Major system changes were needed to properly segregate access in CAPS Clipper.

**Segregation of Payment Functions.** The payment functions in CAPS Clipper did not properly segregate duties. The level of access individuals had to CAPS Clipper depended upon which of the payment functions they were assigned. The following six payment functions existed in CAPS Clipper.

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- **Enter Invoice and Receipt.** This function allows the user to enter all invoice and receiving report information.
  - **Enter Purchase Order.** This function allows the user to enter purchase order data and vendor remittance information.
  - **Enter Modification.** This function allows the user to amend purchase order data, EFT information, and vendor remittance data.
  - **Compute.** This function allows the user to compute the payment amount and due date. A user with this access can also change any of the payment information entered, including the invoice receipt dates, EFT information, vendor remittance data, and payment terms.
  - **Delete.** This function allows the user to delete data previously entered in the system.
  - **Interface.** This function allows the user to upload payments from CAPS Clipper to the disbursing system.

At a minimum, the following system changes were required to properly segregate payment functions.

- Separate the ability of entering EFT information and vendor remittance data from all other entry and computation functions.
- Remove the ability to alter payment information from the compute function.

**Conclusion.** DFAS must assess the practicality of maintaining CAPS Clipper. Even though the fielding of DPPS has slipped, we recognize that making needed system changes may no longer be practical or cost-effective. If system access controls can not be improved in a cost-effective manner, DFAS should develop plans to move the vendor payment workload to another system that will allow duties to be properly segregated. DFAS should also determine whether sufficient personnel are available at each site that makes vendor payments using CAPS Clipper and consolidate vendor payment operations as needed.

## Other System Deficiencies Within CAPS

Deficiencies existed within CAPS for controlling user passwords, monitoring system inactivity, and securing upload files transferred between CAPS and disbursing systems. Although these problems had been recognized by DFAS managers and identified in the Annual Statements of Assurance prepared by DFAS field sites since 1998, funding for needed system changes had not been approved because DPPS was to be fielded in FY 2001. However, because plans to replace CAPS with DPPS have slipped from FY 2001 to an undetermined date, known system deficiencies require immediate correction.

**Password Controls.** Password controls in CAPS(W) and CAPS Clipper did not adequately protect the vendor payment databases used to store vendor payment



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information and make vendor payments. CAPS did not limit the number of attempts an individual user could make at entering a password. According to the National Computer Security Center Standard 002-85, "DoD Password Management Guide," April 1, 1985, controls should be established on the number of guesses an individual user identification may attempt before the system prevents access. Individuals could also sign on at multiple locations using the same user identification and password. This allows for the sharing of passwords and circumvention of system access controls. Further, system administrators could view the system-generated passwords. The system administrator generated the user identification and passwords and provided the individual users with their passwords. Since the system administrators can view the passwords, the passwords were exposed to individuals other than the user and were subject to compromise. As a result of these deficiencies in password controls, information in CAPS was highly susceptible to unauthorized use and manipulation.

DFAS field sites did not ensure that CAPS required an immediate password change upon initial entry to the system using a default password. The DoD Password Management Guide recommends that default passwords be changed immediately. The system should identify the user identification as having an expired password and require the user to change the default password before receiving authorization to access the system. This process ensures that the individual assigned the user identification is the only person who knows the password. At DFAS San Antonio, we were able to gain access to the system using the default password. We determined that some potential users had never accessed the system. Consequently, they never changed the default password. System managers should ensure that the default password is set to expire soon after being issued.

**Monitoring System Activity.** Neither version of CAPS could provide an audit trail to track system activity or disable user identifications for non-use of the system. Auditing logs should capture user actions. The National Computer Security Center Technical Guide 028, "Assessing Controlled Access Protection," May 25, 1992, recommends that a system be able to record system activity for each user identification. Auditing logs assist managers in determining that only authorized and valid users have access to the system. The system should also be capable of disabling a user identification that is not used within a specific timeframe. Disabling user identifications ensures the removal of users who do not frequently access the system. DFAS should change CAPS so that it can monitor system activity and remove access from individuals who do not access CAPS for more than 45 days.

**Encrypting System Uploads.** The upload files that are sent from CAPS to the disbursement systems were not secure. The database files were not encrypted and could have been manipulated and changed. DFAS needs to encrypt the data files transferred between CAPS and the disbursement systems to ensure the integrity of certified payments.

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## System Interfaces

Operational interfaces between CAPS and SPS and the CEFT database were not functioning properly or did not exist. DFAS field sites had to manually enter the payment data needed to populate the purchase order and vendor remittance fields in CAPS. Entering data twice increases the risk of data input errors and erroneous payments.

**Standard Procurement System.** Contract data were not electronically interfaced between CAPS and SPS. During FY 2001, technicians had to manually enter the information from at least 66 percent of all contracts entered into CAPS before a payment was made. DFAS reported that delays in entering contract data into CAPS resulted in the payment of interest penalties of \$1.2 million in FY 2000 and \$1.9 million in the first 10 months of FY 2001. DFAS and the Army have been working to resolve this issue but significant progress has not been made. Problems include the lack of standard system edits between the systems and inconsistencies in DoD regulations concerning required payment information. The Directors of several DFAS field sites told us that the inability to interface data between the systems caused significant backlogs in the entry of contract data and delays in making payments to vendors. Problems entering contract data were especially acute at the beginning of each fiscal year. Based on the implementation plan for DPPS, contract data from SPS will interface with DPPS. Until DPPS is fielded, DFAS and Army managers should work together to overcome obstacles that prevent the automated interface of contract data between SPS and CAPS.

**CEFT Database.** Neither version of CAPS had an electronic interface with the CEFT database. As a result, DFAS field sites granted access to most vendor payment technicians to manually enter EFT information and vendor remittance data into CAPS. An automated interface with the CEFT would ensure that proper remittance information is entered into CAPS, limit the number of times the data needed to be entered, and reduce problems segregating duties at DFAS field sites. DFAS should develop an action plan for interfacing the data contained in the CEFT with the CAPS vendor maintenance tables.

## Summary

Access to CAPS(W) and CAPS Clipper was not adequately controlled and monitored. DFAS field sites making payments for the Army and Defense agencies did not limit the number of users who could update the vendor maintenance tables, enter miscellaneous payments, and delete information in CAPS. Standard user profiles for CAPS should be developed that fully consider the need to standardize the structure of the vendor payment office and business practices within DFAS for making vendor payments. Remote access should be removed until proper system controls can be implemented. Password controls need to be improved and system controls need to be updated. Plans for overcoming problems that have prevented automated interfaces between CAPS and SPS and the CEFT database also need to be developed and implemented. System activity also needs to be adequately monitored and controlled. Certified

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data sent to the disbursement system must not be subjected to potential compromise or alteration. Although some of these problems were recognized by DFAS managers and identified in the Annual Statements of Assurance prepared by DFAS field sites, corrective actions were not taken in anticipation of the fielding of DPPS. However, since DPPS will not replace CAPS as soon as originally planned, known system deficiencies require immediate correction. Until proper corrective actions can be implemented or CAPS is replaced by DPPS, the access and control deficiencies with both versions of CAPS should be reported as a material control weakness in the DFAS Annual Statement of Assurance.

## **Recommendations, Management Comments, and Audit Response**

### **B. We recommend that the Director, Commercial Pay Services:**

**1. Develop and implement standard system access profiles to complement a standard business structure for making payments using the Computerized Accounts Payable System.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that standard system access profiles for making payments using CAPS were being evaluated. Implementation of standard system profiles with the appropriate realignment of organizational elements will take place in June 2002.

**2. Evaluate the ability of smaller vendor payment offices to use standard system profiles. As necessary, increase the staffing needed to adequately segregate duties or relocate vendor payment operations to a field site that can properly segregate duties.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that a review was being conducted to determine the ability of smaller vendor payment offices to use standard system profiles and maintain proper segregation of duties.

**Audit Response.** The DFAS comments were partially responsive. If smaller vendor payment offices cannot implement the standard system profiles, DFAS must take appropriate actions to properly segregate payment functions or move the workload to a field site capable of implementing the standard system profiles. We request that DFAS provide additional comments to the final report.

**3. Remove remote access to update and certify information in the Computerized Accounts Payable System for Windows until the system can provide proper segregation of duties and security over remotely entered data.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that remote certification access was removed at all Army Vendor Payment Support sites. The Director also stated that two remote access

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profiles were being developed. One profile will allow users to input contracts, modifications, invoices, and receiving report information. The other profile will allow remote users to compute payments.

**Audit Response.** The DFAS comments were partially responsive. Creation of the two new profiles will not alleviate many of the issues concerning remote access. Before remote access can be considered, CAPS(W) must be modified to restrict remote users to only information related to their organization and system controls must be developed to ensure that information entered by remote users is not altered after entry. In addition, controls must be adequate to provide certifying officials with reasonable assurance that the information entered by remote users is accurate and supported. We request that DFAS reconsider its position and provide additional comments to the final report.

**4. Develop a plan of action to have field sites using the Clipper version of the Computerized Accounts Payable System use another vendor payment system unless system access controls can be improved and other system deficiencies corrected in a cost-effective manner.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that improvements to the Clipper version of the CAPS were determined to be cost-effective. Improvements to system access controls will be fielded in July 2002 with the release of CAPS Clipper version 7.0.

**5. Develop and fund system change requests to correct password and system control deficiencies in the Computerized Accounts Payable System for Windows.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that system change requests have been developed to correct password and system control deficiencies. The changes will be included in the CAPS version 7.0 release.

**6. Develop action plans for overcoming obstacles that prevent the automated interfacing of data between the Computerized Accounts Payable System and the Standard Procurement System and for implementing automated interfaces between the Computerized Accounts Payable System and the Corporate Electronic Funds Transfer database.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that a Memorandum of Agreement between DFAS and the Army addressing the interface between SPS and CAPS was signed on November 26, 2001. System change requests have been written to refine the SPS files so that CAPS can receive them without manual intervention. The Director also stated that CAPS is scheduled to interface with the CEFT database in the 6.0 release scheduled for November 2002.

**7. Report access and control deficiencies with the Computerized Accounts Payable System as a material control weakness in the Annual**

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**Statement of Assurance for the Defense Finance and Accounting Service until proper corrective actions can be implemented or the system is replaced by the Defense Procurement Payment System.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that two material control weaknesses related to access and control deficiencies with CAPS were reported in the DFAS Columbus FY 2001 Annual Statement of Assurance for Vendor Pay Services.

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## C. Document Requirements for Making Vendor Payments

DFAS field sites frequently made erroneous payments and other payments that were not fully supported by proper documents. We estimate that 181,406 of the 236,940 vendor payments made by DFAS field sites for the Army and Defense agencies from May 1 through July 31, 2000, lacked at least one element of support required by 5 C.F.R. Part 1315. We also estimate that 30,584 payments were in the wrong amounts. Erroneous payments and improperly supported payments were made because:

- DoD Regulation 7000.14-R, volume 10, allowed exceptions to requirements for a proper invoice and did not specify what a receiving report must contain to properly support a payment;
- technicians incorrectly entered payment data and miscomputed payment vouchers in CAPS;
- receiving activities provided inaccurate data on the receipt and acceptance of goods and services;
- standardized business rules did not exist for properly supporting all types of miscellaneous payments; and
- technicians and certification officials either did not detect missing and incomplete items on supporting documents or considered the items unnecessary for making the payments.

As a result, DoD managers assumed an increased risk that payments were not being made in compliance with the PPA. In addition, resources were diverted from their intended use due to efforts to correct duplicate payments and other erroneous payments.

### Supporting Vendor Payments

**Criteria.** 5 C.F.R. Part 1315 identifies strict requirements that supporting documents must meet in order to be proper for payment. The requirements for supporting documentation are further defined in FAR subpart 32.9, DFARS subpart 232.9, and DoD Regulation 7000.14-R, volume 10. DFAS field sites made payments based on contractual documents that needed to comply with 5 C.F.R. Part 1315 requirements. Miscellaneous payments to businesses and individuals had limited business rules on how each payment should be supported. DoD Regulation 7000.14-R, volume 10, and DFAS Indianapolis Regulation 37-1, chapter 9, January 2000, contain some guidance on how to support miscellaneous payments. Guidance on supporting documentation is discussed in Appendix D. Erroneous payments are a significant problem receiving increased attention by the Congress and GAO. Payments made for incorrect amounts are considered erroneous payments.

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**Sample Selection.** To determine whether vendor payments made using CAPS were properly supported, we obtained a population of 236,940 CAPS payments, valued at about \$4.1 billion, made from May 1 through July 31, 2000. From this population, we selected a sample of 300 payments in 3 strata. We used the criteria in 5 C.F.R. Part 1315 to assess the documents (invoice, receiving report, and obligation document) that supported each sample item. The sample was also used to determine whether the data on the supporting documents were entered correctly in CAPS. Details concerning sample methodology are contained in Appendix E.

## Sample Results

The sample estimated that 181,406 payments made from May 1 through July 31, 2000, were not properly supported as required by 5 C.F.R. Part 1315. Table 2 shows the projections of the estimated number of payments that were not properly supported for each type of payment. Appendix E gives details of projections and confidence levels.

<b>Table 2. Estimated Payments Not Properly Supported by Type of Payment</b>			
Type of Payment	Sample Size	Total Payments	Estimate of Improperly Supported Payments*
Contractual	148	105,913	80,620
Miscellaneous	152	131,027	100,787
<b>Total</b>	<b>300</b>	<b>236,940</b>	<b>181,406</b>
*The estimates of improperly supported payments do not total because of rounding.			

To be considered proper, documents supporting contract payments must meet the requirements in 5 C.F.R. Part 1315. We also held supporting documentation for miscellaneous payments to similar standards. The items required for properly supported payments are contained in Appendix D. Our sample also identified 39 erroneous payments that were paid in the incorrect amount to vendors and other authorized individuals. When projected over the entire population, 30,584 payments were erroneous. Appendix E gives details of the sample projections. We also questioned the appropriateness of an additional 31 payments based on available information.

These results were consistent with previously reported findings in Inspector General, DoD, Report No. D-2000-139, and Report No. D-2002-008. It showed that DFAS management did not strictly enforce the requirements for proper supporting documents, creating an environment where erroneous payments can be made without detection. It demonstrates the need for DFAS and DoD acquisition and financial managers to work together to strictly enforce the requirements in 5 C.F.R. Part 1315. Further, FAR subpart 32.9 was not updated until December 18, 2001. DFARS subpart 232.9 and DoD

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Regulation 7000.14-R, volume 10, still have not been updated with the requirements in 5 C.F.R. Part 1315. Guidance needs to be changed to ensure proper payments are made.

## Contractual Payments

**Determination of Proper Payments.** The sample results estimated that from May 1 through July 31, 2000, DFAS field sites made approximately 80,620 contract payments for Army and Defense agency customers without the proper support. DFAS technicians and certification officials either did not detect missing items required on supporting documents or considered the items unnecessary for making the payments. Documents that lacked the required elements of support should have been returned to the originator and no payment made until a corrected copy of the document was obtained. Table E-2 (Appendix E) shows the estimated number of unsupported payments caused by each type of supporting document.<sup>2</sup> Because more than one document could have caused a payment to be improperly supported, the total number of improperly supported payments in Table E-2 exceeds 80,620 payments.

**Invoices.** The review of sample contractual payments showed that 38 invoices did not properly support the payments. (More than one invoice supported some payments.) Invoices were considered improper if they did not contain a valid contract number, did not adequately describe what was purchased or the description was inconsistent with the contract, or were altered. Our sample showed the following.

- DFAS field sites made 29 payments using vendor invoices that did not have a contract number.
- Items billed on invoices related to 22 contracts were not consistent with the contract line items or did not contain an adequate description of the items being invoiced.
- Invoices related to 10 contracts were altered to make the invoices proper for payment. All of the altered invoices were corrected by someone other than the vendor and did not clearly state that the invoice was a corrected copy.

When the results were projected over the entire population, 32,437 vendor invoices were not proper for payment and should have been returned to the vendor for correction. Appendix E gives details of the sample projections. DFAS technicians accepted the invoices even though the required information was missing or incomplete because DoD Regulation 7000.14-R, volume 10, allowed exceptions to the requirements for a proper invoice. However, 5 C.F.R. Part 1315 required the return of any improper invoice to the vendor within 7 days of receipt. The FAR and DoD Regulation 7000.14-R, volume 10, had not been updated with the more stringent requirements for invoices that had

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<sup>2</sup>More than one invoice and receiving report could have supported a payment. For sampling purposes, we considered each payment to have only one invoice and receiving report.



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been added to 5 C.F.R. Part 1315 in September 1999 (Appendix D). Inspector General, DoD, Report No. D-2000-139, addressed the need for the Under Secretary of Defense (Comptroller) to change DoD Regulation 7000.14-R, volume 10. As of the date of this report, the regulation had not been changed.

**Receiving Reports.** The review of sample contractual payments showed that 102 did not have properly supported receiving reports. (Some payments had more than one receiving report.) Receiving reports were considered improper if they did not contain a valid contract or obligation number; did not contain a proper receipt and acceptance date; did not adequately describe the goods received or services performed or the description was inconsistent with the contract; or did not contain proper signature information for the receiving or accepting official. Our sample showed the following.

- DFAS field sites made 23 payments using receiving reports that did not identify a valid contract number.
- Receiving reports related to 49 payments did not show the dates receipt and acceptance occurred.
- Items on receiving reports related to 54 contracts were not consistent with the contract line items or did not contain an adequate description of the goods and services received.
- Required signature information was not on receiving reports related to 76 contracts.

When our results were projected over the population, 74,000 receiving reports did not meet the requirements of a proper receiving report and should have been returned to the receiving activity for correction. Appendix E contains details on sample projections. Most of the forms that were used as receiving reports that we found to be improper were not designed to be receiving reports. In response to Inspector General, DoD, Report No. D-2002-008, the Director, Defense Procurement, will require DD Form 250, "Material Inspection and Receiving Report," be used as the primary means for documenting receipt and acceptance of goods and services. The use of DD Form 250 should significantly improve compliance with the requirements in 5 C.F.R. Part 1315.

**Contracts.** The review of sample items showed that 13 contracts did not provide proper payment support. Twelve contracts did not contain sufficient information for the payment office to properly match invoice and receipt information and make the payment to the correct vendor. In one instance, the payment office could not locate the contract and the contract was not in the EDA system.

**Specific Problems Related to Documents Supporting Contractual Payments.** At DFAS field sites making vendor payments using CAPS for the Army and Defense agencies, we identified the same types of problems with the invoices, receiving reports, and contracts that we identified at DFAS Kansas City. We identified those problems in Inspector General, DoD, Report No. D-2002-008.

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We also identified several additional problems with making vendor payments for the Army and Defense agencies that warrant the attention of DFAS and Army acquisition and financial managers.

**Invoices Sent to Designated Billing Offices.** The sample showed that invoices supporting 28 contractual payments did not identify that the designated billing office affixed the invoice receipt date to the invoice. In these cases, it was not easy to determine whether the affixed date stamp belonged to the billing office designated in the contract or to some other activity. DFAS field sites did not verify who affixed the date stamp on the invoice. They assumed that the date reflected the date the invoice was received in the designated billing office. Instead, the date of the invoice should have been used to determine the payment due date. During FY 2001, DFAS Indianapolis issued three policy messages that reiterated the requirements that a date stamp identify the designated billing office. DFAS field sites should use the invoice date in calculating the payment due date if the date stamp does not clearly identify the designated billing office. DFAS field sites should identify designated billing offices that do not clearly demonstrate that they affixed the invoice receipt dates to invoices and work with the Army to provide training on the importance of affixing identifiable date stamps on invoices provided to the payment offices.

**Validity of Receipt and Acceptance Dates.** Receiving activities provided DFAS field sites with receipt and acceptance dates on receiving reports that did not reflect the actual dates the goods or services were received and accepted. We contacted receiving activities and analyzed the data provided on invoices and contracts and determined that 64 contractual payments were made based on receipt and acceptance dates that did not reflect the actual dates the activity should have received the items invoiced. DFAS field sites rarely questioned the validity of the receipt and acceptance dates provided by receiving activities. The date on the receiving report usually represented the date an official completed the receiving report, not the actual date that the goods or services were received and accepted. For example:

- Invoice number 000-013 was received at DFAS Rock Island for support services performed from March 12 through 25, 2000. A Government official signed the receiving report on April 17, 2000, and the payment was made on May 15, 2000. We called the receiver and determined that the date reflected the date that the receiver certified the invoice for payment, not the date the services were received and accepted. The receiver stated that at the time this receiving report was filled out she was not aware that the actual dates for receipt and acceptance were needed. If the payment was based on the actual constructive acceptance date of April 1, 2000, the vendor would have been entitled to approximately \$2,800 in interest.
- DFAS Lexington made a payment on July 27, 2000, based on a receipt and acceptance date of June 16, 2000. However, a spreadsheet attached to the receiving report showed the actual receipt date was May 31, 2000. Had the payment due date been computed based on the actual receipt date, this vendor was due \$600 in interest penalties that were not paid.

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When projected over the entire population, 37,949 payments were made using receiving reports with dates that did not reflect the actual dates of receipt and acceptance. Appendix E contains details on sample projections. The use of later dates for computing payment due dates often resulted in payments being made later than they should have been and in amounts that deprived vendors of required interest penalties. Some receivers informed us that they were unaware of the requirement to provide proper dates for receipt and acceptance of goods and services on receiving reports. Army managers need to train all individuals authorized to receive goods and services on the need to record the actual dates the activity received and accepted the goods and services on the receiving reports. Further, DFAS technicians should assess whether the dates provided on receiving reports are reasonable based on the information on the invoices and contracts and the documents accompanying receiving reports. In situations where the dates do not seem reasonable, the technician should contact the receiver and verify that the receiving report identifies the actual receipt and acceptance dates.

**Delivery Order Contract Paid at Multiple Field Sites.** DFAS Lawton, DFAS Rock Island, and DFAS St. Louis made payments on contract number DABT60-97-D-0007. The sample payment reviewed at DFAS St. Louis showed that the invoice and receiving report did not properly support the payment because they were inconsistent with the line items on the contract. The basic delivery order contract identified DFAS Lawton as the payment office but the contracting office issued delivery orders to two other DFAS field sites. Further research showed that delivery order number 0139 was paid by both DFAS Lawton and DFAS Rock Island, and the vendor used the same invoice to bill both DFAS field sites. We did not perform enough work to identify any duplicate payments; however, allowing multiple payment offices to make payments on the same contract increases the potential for duplicate payments. The built-in system edit checks in CAPS and the use of the Predator application will not detect and prevent duplicate payments from being made by multiple DFAS field sites. Army contracting needs to eliminate the practice of creating contracts with more than one payment office, and DFAS and Army fund managers should conduct an audit of the contract number DABT60-97-D-0007 to determine whether duplicate or erroneous payments have been made.

## **Support for Miscellaneous Payments**

Inspector General, DoD, Report No. D-2000-139, recommended that the Under Secretary of Defense (Comptroller) amend DoD Regulation 7000.14-R, volume 10, to standardize the business rules for making properly supported miscellaneous payments. As of the date of this report, the guidance for making vendor payments in DoD Regulation 7000.14-R, volume 10, had not been changed. The guidance in DFAS Indianapolis Regulation 37-1 also did not identify what information is required to properly support each type of miscellaneous payment. At a minimum, the payment office should require that:

- a proper authorization document exists that supports the vendor's or claimant's claim against the Government;
- a request exists for payment by the claimant or vendor; and

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- an employee at the receiving activity acknowledges that the claim, item, or service was received and accepted.

Although DFAS field sites tried to follow guidance for making miscellaneous payments, procedures were inconsistently followed and improperly supported payments were made. The use of Standard Form 1034, "Public Voucher for Purchases and Services Other than Personal," for other than its intended purpose was associated with many of the improperly supported miscellaneous payments.

**Requirements for Proper Support.** Invoices, receiving reports, and obligation documents supporting miscellaneous payments were frequently not proper. The sample showed that 100,787 payments were made from May 1 through July 31, 2000, without sufficient support (see Appendix E). Table E-3 shows the estimated number of unsupported payments caused by each type of supporting document. Because more than one document could have caused a payment to be improperly supported, the total number of improperly supported payments in Table E-3 exceeds 100,787 payments.

Although problems existed with some of the invoices and obligation documents supporting miscellaneous payments, all of the improperly supported payments had an improper receiving report. The receiving reports did not contain enough information to ensure that the receiving reports were proper or that the claim, goods, or services were actually received and accepted by an authorized Government official. Inspector General, DoD, Report No. D-2002-008, recommended that the Director, Commercial Pay Services, develop interim procedures for making properly supported miscellaneous payments that can be used by the DFAS field sites until DoD Regulation 7000.14-R, volume 10, is changed. As of September 7, 2001, the Director, Commercial Pay Services, had not issued interim procedures for making properly supported miscellaneous payments.

**Use of the Standard Form 1034.** Payment offices improperly made miscellaneous payments based on information found on SF 1034s. The SF 1034 is a payment voucher that should be used to provide the payment office with the authority to make a payment, which is certified and signed by an authorized certifying official appointed as specified in DoD 7000.14-R, volume 5. Supporting documents are either attached to the form or retained at the office preparing the SF 1034. Technicians at the DFAS field sites are only required to enter the information from the SF 1034 into CAPS. For 18 miscellaneous payments in our sample, an SF 1034 was inappropriately used as the receiving report and obligation document. Sometimes the voucher number on the SF 1034 was used as the invoice number instead of the actual invoice number from the vendor invoice. This practice made it difficult for vendors to identify what invoices were being paid and increased the risk that a duplicate payment could occur. For 15 other sample items, an SF 1034 was signed by an authorized certifying official; however, the SF 1034s often did not contain all the information needed to support a payment, including an invoice date, invoice number, receipt and acceptance dates, and contract number. In those instances, the technicians had to use other information from the SF 1034 or on attached documents as the information to be entered into CAPS. DFAS should develop guidance on the proper use of the SF 1034.

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## Erroneous and Unsupported Payments

Our sample identified 39 erroneous payments that were paid in the incorrect amount to vendors and other authorized individuals. When projected over the entire population 30,584 payments were erroneous. Appendix E gives details of the sample projections. We also questioned the appropriateness of an additional 31 payments based on available information. Sufficient documentation and information was not available to support the payments. Appendix F gives details on each payment.

**Incorrect Amounts Paid to Vendors.** DFAS field sites made 39 vendor payments in the incorrect amount resulting in overpayments of about \$1 million and underpayments of about \$24,000. A payment was considered erroneous if the vendor was paid the incorrect amount based on the documents supporting the payment. The miscalculation of payment due dates and the use of incorrect information to make payments led to most of the erroneous payments that resulted in overpayments and underpayments. Table F-1 shows, by category, the number of erroneous payments and the dollar value of overpayments and underpayments.

**Missing or Inconsistent Supporting Documents.** Thirty-one payments, valued at about \$2.4 million, were made without proper supporting documents or the supporting documents contained information that was inconsistent with the payment. Based on available information, we questioned the appropriateness of the DFAS field sites making the 31 payments.

**Missing Supporting Documents.** Files supporting 28 payments, valued at about \$2.4 million, lacked at least one essential document needed to properly support the payment. The missing invoices, receiving reports, and obligation documents were not part of the payment file and were not otherwise provided to us by the payment office. For recurring payments, adequate procedures had not been established to ensure that services were actually received and accepted and receiving reports were prepared and retained at the receiving activities. Table F-2 shows the number of erroneous payments by category and the dollar value of the payments that should not have been made until proper documentation was obtained. Some of the 28 payments lacked more than one type of supporting document.

**Invoices.** Payment offices were unable to provide us with the invoices needed to support four sample payments. Technicians made payments based on a statement from the vendor, a memorandum from an Army official, and travel documents received from a travel office. Supporting documentation was not available for one payment valued at \$28.24. Payments should be supported by a request from the vendor to be paid for the delivery of goods or services.

**Receiving Reports.** Fifteen payments were made without knowledge that goods and services were actually received and accepted. For recurring payments, such as rent and utility payments, payment offices did not have receiving reports. While guidance did not require the payment offices to have receiving reports in all cases, adequate procedures had not been established

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to ensure that services were actually received and accepted and receiving reports were prepared and retained at the receiving activities. Receiving reports were not available to support three property lease payments, seven utility payments, and five other payments.

**Leased Property.** Payment offices made three payments, valued at about \$2.3 million, for leased property without receiving reports. Technicians told us that they would receive notification to not make a payment if something happened that the property was no longer available. Otherwise, they automatically paid the lessor. DoD Regulation 7000.14-R, volume 10, states that payments for continuing services such as rents, janitorial services, or utilities, which are performed under agency-contractor agreements providing payments at fixed periodic intervals require a receiving report or certification that the services were performed. DoD Regulation 7000.14-R, volume 10, further states that receiving reports for recurring services or maintenance contracts that require payment of a flat fee for a specific time period do not need to be physically received by the payment office. However, satisfactory controls need to be established to ensure that a receiving report was prepared and retained at the receiving activity and payments were made only for satisfactory services actually received and accepted. The payment offices had not established administrative controls to ensure that services were received and accepted.

**Utility Payments.** Seven utility payments, valued at about \$5,200, were made without proof of acceptance of services. The utility payments were not subject to the exemption in DoD Regulation 7000.14-R, volume 10, because they were not for a fixed amount each month. While payment offices had receiving reports for some utility payments in our sample, receiving reports were not available for these seven utility payments. Personnel at the payment offices and the receiving activities told us they were not required to have receiving reports for utilities. Payments were made based on the invoices that had been sent to the payment office.

**Other Missing Receiving Reports.** For the five other payments, payment files did not contain receiving reports. When we requested the receiving reports, they could not be located. Consequently, the five payments were made without the knowledge that goods and services were actually received and accepted.

**Obligating Documents.** Payment offices were unable to provide obligation documents for seven sample payments. For contractual payments, the paying office should have a signed copy of the contract and all modifications to the contract. Miscellaneous payments require an obligation document in order to confirm the obligation to pay on behalf of the Government and to determine the proper accounting classification to charge. For the seven payments, either the payment office based the payment on other than an obligating document received from someone other than the contracting or budget office or we could not determine what the payment office used as an obligating document.

**Use of Delivery Orders.** DFAS made eight payments for moving and storage services that were paid without a delivery order. Basic



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ordering agreements specify the items or services that can be ordered from the vendor and provide an estimate of the number of items or amount of services to be purchased. When it is time for an item or service to be ordered, a delivery order is issued. The delivery order identifies the exact items or services to be received and obligates the funds necessary to purchase them. The eight payments for moving and storage services were paid like miscellaneous payments using either an SF 1034 or another document as support for the payment. The payment office did not have delivery orders or other obligating documents to support the payments. It is unacceptable to bypass the contract requirements by other documents and miscellaneous payment procedures to make payments for which delivery orders should have been issued.

**Inconsistent Supporting Documentation.** Available documents supporting three other payments, valued at about \$1,956, contained inconsistent information that should have been resolved before a payment was made. The accounting classification cited on one payment voucher did not match the contract. Another payment was made even though the contract requirements had been exceeded. The third payment was made by DFAS San Antonio to an individual other than the one identified on the approved DD Form 1556, "Request, Authorization, Agreement, Certification of Training and Reimbursement."

## Summary

5 C.F.R. Part 1315 contains strict requirements for what constitutes properly supported payments. An proper invoice, receiving report, and obligating document are required to be obtained by the payment office before most payments are made. Invoices received from vendors should meet all requirements of a proper invoice. Invoices that fail to meet the standards need to be returned to the vendor for correction within 7 days. Army activities receiving goods and services should promptly submit to the payment office properly completed receiving reports that acknowledge receipt and acceptance. Receiving reports must contain all required information or be returned for correction. Limited situations do not require the receiving report to be at the payment office. However, controls must be in place to ensure the service was performed in an acceptable manner.

Army managers must ensure that personnel at receiving activities are trained on the importance of recording proper dates on receiving reports to prevent the circumvention of the PPA. Contracting office personnel need to ensure that contracts clearly provide all the data needed for making a payment. Contracts should detail the items or services being purchased so invoices and receiving reports can be validated. The Under Secretary of Defense (Comptroller) still needs to amend DoD Regulation 7000.14-R, volume 10, to discontinue allowing exceptions to requirements for a proper invoice, specify what a receiving report must contain to properly support a payment, and standardize the rules for making properly supported miscellaneous payments. Technicians and certification officials need to look more closely at the information that is entered into CAPS and ensure that payments are properly supported. DFAS and the Army should review and take appropriate actions to resolve the erroneous and other questionable payments identified in the sample.

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## **Recommendations, Management Comments, and Audit Response**

**C.1. We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller), in coordination with the Director, Commercial Pay Services, and the Assistant Secretary of the Army (Acquisition, Technology, and Logistics):**

**a. Train personnel at designated billing offices on the requirements for properly date-stamping documents supporting vendor payments.**

**Army Comments.** The Deputy Assistant Secretary of the Army (Financial Operations) concurred and stated that he would work with DFAS and the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) to implement the recommendation. The Assistant Secretary of the Army (Acquisition, Technology, and Logistics) did not provide comments on the draft of this report. Therefore, we request that the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) provide comments on the final report.

**DFAS Comments.** The Director, Commercial Pay Services, stated that DFAS would provide assistance as requested by the Army.

**b. Train personnel at Army activities on the standards for proper receipt and acceptance of goods and services.**

**Army Comments.** The Deputy Assistant Secretary of the Army (Financial Operations) concurred and stated that he would work with DFAS and the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) to develop guidance for the processing of receiving reports. The Assistant Secretary of the Army (Acquisition, Technology, and Logistics) did not provide comments on the draft of this report. Therefore, we request that the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) provide comments on the final report.

**DFAS Comments.** The Director, Commercial Pay Services, stated that DFAS would provide assistance as requested by the Army.

**c. Cease using Standard Form 1034 as an invoice, receiving report, and obligation document and only allow its use to support a properly certified payment as authorized by DoD Regulation 7000.14-R, volume 10.**

**Army Comments.** The Deputy Assistant Secretary of the Army (Financial Operations) concurred and stated that he would work with DFAS and the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) to implement the recommendation. The Assistant Secretary of the Army (Acquisition, Technology, and Logistics) did not provide comments on the draft of this report. Therefore, we request that the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) provide comments on the final report.



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**DFAS Comments.** The Director, Commercial Pay Services, nonconcurred and stated that DoD Regulation 7000.14-R, volume 10, chapter 8, allows the use of the SF 1034 to make various miscellaneous payments. The Director also stated that DFAS would encourage the use of the DD Form 250 in lieu of the SF 1034.

**Audit Response.** The DFAS comments were partially responsive. The SF 1034 should be used as a payment voucher and not as the invoice, receiving report, or obligation document. We agree that DoD Regulation 7000.14-R, volume 10, permits the use of the SF 1034 to make payments. However, the SF 1034 should be completed properly and signed by an approved certifying official who has a DD Form 577, "Signature Card," on file with the field site entering the data in CAPS. The certifying official must ensure that the SF 1034 can stand alone as a payment voucher and that appropriate information from supporting documents is used to prepare the SF 1034. The SF 1034s should contain all the information needed to support a payment, including the invoice date, invoice number, receipt and acceptance dates, and contract or standard document number for the obligation. DFAS should work with the Army to develop guidance that specifies how the SF 1034 should be used in making vendor payments. We request that DFAS reconsider its position and provide additional comments to the final report.

**C.2. We recommend that the Director, Commercial Pay Services:**

**a. Direct field sites to use the invoice date for computing the payment due date if the date stamp on the invoice does not clearly identify that the office designated in the contract received the invoice.**

**DFAS Comments.** The Director, Commercial Pay Services, partially concurred and stated that a policy letter will be issued to clarify guidance on the use of invoice receipt dates. DFAS field sites will be advised to use the invoice date for computing the payment due date when the date stamp on the invoice does not clearly identify receipt by the designated billing office, unless communication with the designated billing office can substantiate the true date of receipt on the invoice.

**Audit Response.** The DFAS comments were responsive. The guidance should help to ensure that proper invoice receipt dates are used in computing payment due dates.

**b. Direct field sites to establish a procedure for determining the reasonableness of receipt and acceptance dates and returning receiving reports that provide unreasonable dates.**

**DFAS Comments.** The Director, Commercial Pay Services, nonconcurred and stated that DFAS did not establish criteria for determining the reasonableness of receipt and acceptance dates. The Director stated that the ordering service or agency was responsible for determining the reasonableness of receipt and acceptance dates. DFAS will continue to use the 7-day constructive acceptance rule in the FAR when appropriate.

**Audit Response.** The DFAS comments were not responsive. The ordering activity is responsible for establishing the required receipt dates for goods and

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services. However, DFAS payment technicians are the only individuals in a position to compare the dates on the supporting documents and determine the reasonableness of the receipt and acceptance dates provided by receiving activities. Questionable dates should be researched to ensure that vendors are paid in a timely manner and are not deprived of the interest penalties that they are entitled to under the Prompt Payment Act when payments are made late. We request that DFAS reconsider its position and provide additional comments to the final report.

**c. Suspend the current policy of making payments for recurring services without a receiving report until adequate controls are in place to verify that payments are not being made until acceptance occurs and that acceptance documentation is properly prepared and maintained.**

**DFAS Comments.** The Director, Commercial Pay Systems, concurred and stated that a memorandum will be issued to suspend the practice of making recurring payments without a receiving report. Compensating controls will be identified to verify payments are not being made until acceptance occurs and that acceptance documentation is properly prepared and maintained.

**d. Conduct an audit of contract number DABT60-97-D-0007 to determine if duplicate or erroneous payments were made.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that DFAS will perform a complete review of the payments on the contract.

**e. Review and resolve those erroneous payments and the other questionable payments that are considered significant.**

**DFAS Comments.** The Director, Commercial Pay Services, concurred and stated that questionable payments would be resolved.

**C.3. We recommend that the Assistant Secretary of the Army (Acquisition, Technology, and Logistics) direct contracting offices to:**

**a. Identify a single payment office for making payments on each delivery order.**

**b. Issue delivery orders for moving and storage services in support of basic ordering agreements.**

**c. Issue contracting documents that contain accurate Data Universal Numbering System numbers and Contractor Activity Government Entity codes and that require vendors to submit invoices that meet the requirements of 5 Code of Federal Regulations Part 1315 directly to payment offices unless the invoices require certification by installation personnel.**

**Army Comments.** The Assistant Secretary of the Army (Acquisition, Technology, and Logistics) did not provide comments on the draft of this report. Therefore, we request that the Army provide comments on the final report.

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## Appendix A. Audit Process

### Scope

**Work Performed.** We evaluated the controls associated with the two versions of CAPS and the computation of vendor payments at DFAS field sites, USPFOS, and several other DoD organizations. During FY 2000, about 902,000 vendor payments, valued at \$13.7 billion, were made using CAPS. A random sample of 300 of the 236,940 payments made from May 1 through July 31, 2000, was reviewed. We considered the organizational and system changes made by DFAS field sites since July 31, 2000.

**General Accounting Office High-Risk Area.** GAO identified several high-risk areas in the DoD. This report provides coverage of the Defense Financial Management and Information Management and Technology high-risk areas.

### Methodology

To assess controls over CAPS(W) and CAPS Clipper, we reviewed system access lists, compared the access levels of employees to their job position, observed system access by users, and discussed procedures for controlling and changing passwords with systems personnel. We also reviewed system manuals and discussed the functionality of the two versions of CAPS with systems personnel at DFAS Indianapolis and the other field sites.

From data files obtained from DFAS Indianapolis, we randomly selected 300 vendor payments made using CAPS from May 1 through July 31, 2000. CAPS(W) was used by six field sites assigned to DFAS Indianapolis (Operating Forces) and the DFAS field sites located in San Antonio, Texas; and Norfolk, Virginia. DFAS Europe, DFAS Rock Island, DFAS St. Louis, the 54 USPFOS, and several other DoD organizations used CAPS Clipper. From August 2000 through July 2001, we reviewed the operations and support for the payments at these locations to determine whether payments were properly authorized, approved, and supported. Obligation documents, invoices, receiving reports, and payment vouchers were reviewed for accuracy and propriety.

We reviewed vendor payment operations at DFAS Indianapolis, DFAS Europe, DFAS Lawton, DFAS Norfolk, DFAS Orlando, DFAS Rock Island, DFAS Rome, DFAS San Antonio, and DFAS St Louis. We also reviewed operations at USPFO Indiana, Indianapolis, Indiana; USPFO Ohio, Columbus, Ohio; and USPFO Oklahoma, Oklahoma City, Oklahoma. We also obtained and analyzed data from DFAS Lexington, DFAS Seaside, and 21 other USPFOS. We compared payment vouchers to source documents to determine whether payments were:

- properly supported, in the correct amount, and cited proper appropriation data;

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- based on the correct invoice receipt dates and receipt and acceptance dates;
  - properly certified; and
  - sent to the correct vendor via the required means of delivery.

We also reviewed guidance for making vendor payments and compared guidance issued by DFAS Arlington, Arlington, Virginia, and DFAS Indianapolis with guidance in 5 C.F.R. Part 1315, the FAR, DFARS subpart 232.9, and DoD Regulation 7000.14-R, volumes 5 and 10. We contacted selected receiving activities to determine whether they received goods and services for which payments had been made. We also contacted several vendors to determine the status of invoices and whether payments had been received.

We assessed improvements in vendor payment operations by assessing changes in guidance and the actions taken by DFAS and the Army in response to prior reviews of vendor payment operations. We held discussions with key DFAS and Army financial managers. At each location we visited, we also determined actions taken to resolve older unpaid invoices by judgmentally selecting 10 invoices from a listing of unpaid invoices. We determined the status of the invoices, identified problems that delayed the payment of the invoices, and for those invoices that were paid as of the date of our visit, we reviewed the documents supporting the payments.

**Use of Computer-Processed Data.** Although we relied on computer-processed data from the two versions of CAPS, we did not evaluate the adequacy of all the system's general and application controls. We determined that password and system controls over CAPS were not adequate and data entered at one location could be altered or removed by individuals at other locations. However, we established data reliability for the payments we reviewed by comparing data output to source documents and through discussions with vendors and receiving activities. Our tests disclosed that the data were sufficiently reliable to support the audit conclusions and recommendations.

**Audit Type, Dates, and Standards.** We performed this financial-related audit from August 2000 through October 2001 in accordance with generally accepted government auditing standards.

**Contacts During the Audit.** We visited or contacted individuals and organizations within DoD. Further details are available on request.

## Management Control Program Review

DoD Directive 5010.38 "Management Control (MC) Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control (MC) Program Procedures," August 28, 1996, require DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the management controls.

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**Scope of Review of the Management Control Program.** We reviewed the adequacy of management controls over vendor payments made using CAPS. Specifically, we reviewed management controls over vendor payments at the DFAS field sites. We also reviewed management's self-evaluation of those controls.

**Adequacy of Management Controls.** A material management control weakness as defined by DoD Instruction 5010.40 was identified in controls associated with making vendor payments using CAPS. Management controls were not adequate to control access to CAPS and to ensure that all vendor payments were properly supported and made for correct amounts. Recommendations A., B., and C., if implemented, will improve controls over vendor payments. A copy of the report will be provided to the senior official in charge of management controls in DFAS.

**Adequacy of Management's Self-Evaluation.** DFAS managers identified vendor payments as an assessable unit and in our opinion correctly identified the risk associated with vendor payments as high. DFAS Indianapolis did not identify controls over the processing of CAPS payments as a management control weakness in its FYs 2000 and 2001 Annual Statements of Assurance. However, DFAS Columbus and DFAS Kansas City as well as several of the DFAS field sites had reported significant control issues with CAPS. As highlighted in this report, CAPS has significant management control issues that should be reported as a material weakness.

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## **Appendix B. Prior Coverage**

During the last 5 years, GAO and the Inspector General, DoD, have issued several audit reports discussing issues related to vendor payments.

### **General Accounting Office**

GAO Report No. GAO-01-309 (OSD Case No. 3029), "Excess Payments and Underpayments Continue to be a Problem at DoD," February 22, 2001

GAO Report No. GAO/AIMD-00-10 (OSD Case No. 1919), "Increased Attention Needed to Prevent Billions in Improper Payments," October 29, 1999

GAO Report No. GAO/AIMD-98-274 (OSD Case No. 1687), "Improvements Needed in Air Force Vendor Payment Systems and Controls," September 28, 1998

GAO Report No. GAO/OSI-98-15 (OSD Case No. 1687-A), "Fraud by an Air Force Contracting Official," September 23, 1998

### **Inspector General, DoD**

Inspector General, DoD, Report No. D-2002-008, "Controls Over the Computerized Accounts Payable System at Defense Finance and Accounting Service Kansas City," October 19, 2001

Inspector General, DoD, Report No. D-2001-101, "Controls Over Electronic Document Management," April 16, 2001

Inspector General, DoD, Report No. D-2001-075, "Standard Procurement System Use and User Satisfaction," March 13, 2001

Inspector General, DoD, Report No. D-2001-029, "General Controls Over the Electronic Document Access System," December 27, 2000

Inspector General, DoD, Report No. D-2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000

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## Appendix C. Standard Office Structure for Making Vendor Payments

**Centralized Mailroom.** The centralized mailroom should be located and controlled outside of the vendor payment operation. All incoming documents, including mail delivered by the U.S. Postal Service, hand delivered items, express mail, and facsimile messages that support vendor payments should be received and date-stamped in the centralized mailroom. The mailroom should be a secure location and all supporting documents should be maintained under its control until transferred to the document management section for processing. Sites using the RightFAX system can receive supporting documents directly in the document management section since the RightFAX system provides a means to control the date stamp placed on the document.

**Vendor Payment Office.** In order to standardize the vendor payment office structure, each vendor payment office should contain the following four sections.

**Document Management Section.** The document management section should be a secure location within the vendor payment office. The section should be staffed with experienced vendor pay technicians that screen all incoming vendor payment supporting documents, and either enter them into CAPS or log and return them to originators with an explanation as to why the documents are not proper. This section should also track and control payment folders and each supporting document until the payment is made and the documents are attached to the disbursement voucher.

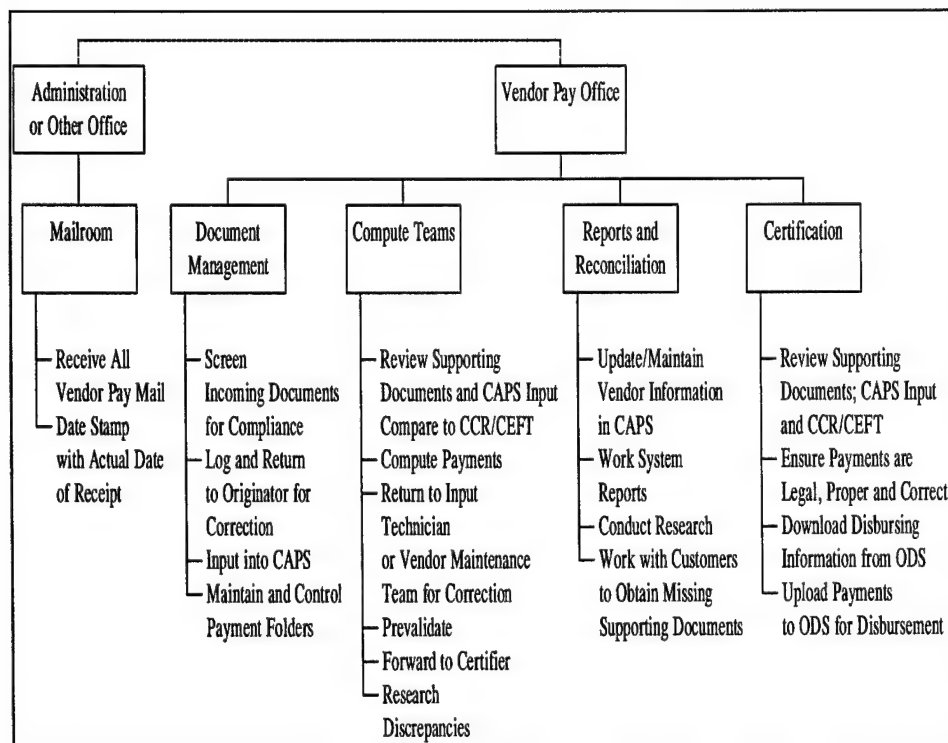
**Payment Computation Section.** The payment computation section should consist of vendor pay technicians responsible for ensuring that all payment documents for contractual and miscellaneous payments are properly entered into CAPS and properly support the payments. The technician should also determine whether the EFT information contained in CAPS is current by comparing the data with the CEFT database. If errors are detected, the information should be researched and returned to the input or vendor maintenance technician for correction. Once all documents are obtained and payment information reviewed, the technician should compute the payment in CAPS, ensure that the payment is properly prevalidated, and produce a disbursement voucher.

**Certification Section.** The certification section should be comprised of experienced vendor pay technicians who have been formally designated as certifying officials. This section is responsible for ensuring that all payments are legal, correctly computed for payment, are supported by proper supporting documents, and are sent to the correct EFT account or remittance address. Certification officials should also sign each voucher using either a manual or electronic signature certifying that the payments are legal, proper, and correct. Certification officials should be responsible for performing the daily download of disbursing information from ODS to CAPS and the upload of

payment information from CAPS to ODS. The disbursing officer should be provided with a certification statement that the payments being submitted for disbursement have all been properly certified.

**Reports and Reconciliation Section.** The reports and reconciliation section should be staffed with experienced vendor pay technicians or accountants responsible for conducting research and working management reports. This section should also work with activities to obtain missing documentation needed to properly support payments that appear on overage listings. A limited number of individuals within this section should be responsible for entering and updating vendors' EFT and check remittance information in CAPS.

The figure shows a proposed standard office structure that would provide proper segregation of duties within a field site processing vendor payments.





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## Appendix D. Guidance on Supporting Documentation

The principal guidance used for making payments to vendors is the PPA, as implemented in 5 C.F.R. Part 1315, "Prompt Payment; Final Rule," September 29, 1999. The requirements for supporting documentation are further defined in FAR Subpart 32.9, "Prompt Payment"; DoD FAR Supplement Subpart 232.9, "Prompt Payment"; and DoD Regulation 7000.14-R, volume 10, "Contract Payment Policy and Procedures," November 1999.

On August 28, 2000, a proposed rule was published for comment in the Federal Register, "Federal Acquisition Regulation; Prompt Payment and the Recovery of Overpayment; Proposed Rule." The proposed change revises the FAR to incorporate 5 C.F.R. Part 1315 and implements a GAO recommendation to require contractors who have been overpaid to notify contracting officers of overpayments. The FAR council must issue a Federal Acquisition Circular to change the FAR. DoD FAR Supplement Subpart 232.9, "Prompt Payment," also has not been changed.

In Inspector General, DoD, Report No. D-2000-139, "Controls Over the Integrated Accounts Payable System," June 5, 2000, we recommended that DoD Regulation 7000.14-R, volume 10, be amended to fully comply with the requirements in 5 C.F.R. Part 1315 and include standardized rules for making properly supported miscellaneous payments. The Under Secretary of Defense (Comptroller) stated that DoD Regulation 7000.14-R, volume 10, would not be changed until 5 C.F.R. Part 1315 is incorporated in the FAR.

DFAS Indianapolis issued further guidance in DFAS Indianapolis Regulation 37-1, Chapter 9, "Vendor Pay," dated January 2000. With the exception of an invoice number and the name of the vendor on receiving reports, the DFAS Indianapolis guidance echoed the requirements in 5 C.F.R. Part 1315 for what information must be found on the supporting documentation.

**Invoices.** 5 C.F.R. Part 1315 requires that the vendor send an invoice to the designated billing office specified in the contract when goods are delivered or services performed. The designated billing office is required to immediately date-stamp the invoice and perform a review to determine whether the invoice is proper for payment. If the invoice is determined to be proper, it should be sent to the payment office for entry into CAPS and payment as required by the PPA. If determined to be improper, the invoice should be returned to the vendor within 7 days of receipt (for most invoices), identifying all defects that prevented payment and requesting that the vendor send a clearly marked corrected invoice to the designated billing office for payment.

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Specifically, 5 C.F.R. Part 1315.9, "Required Documentation," states that:

(b) The following correct information constitutes a proper invoice and is required as payment documentation:

- (1) Name of vendor;
- (2) Invoice date;
- (3) Government contract number, or other authorization for delivery of goods or services;
- (4) Vendor invoice number, account number, and/or any other identifying number agreed to by contract;
- (5) Description (including for example, contract line/subline number), price, and quantity of goods and services rendered;
- (6) Shipping and payment terms (unless mutually agreed that this information is only required in the contract);
- (7) Taxpayer Identification Number (TIN), unless agency procedures provide otherwise;
- (8) Banking information, unless agency procedures provide otherwise, or except in situations where the EFT requirement is waived under 31 CFR 208.4;
- (9) Contact name (where practicable), title and telephone number;
- (10) Other substantiating documentation or information required by the contract.

In addition to these requirements, the proposed change to the FAR specifies EFT requirements and states that contractors should assign an identification number to each invoice.

DoD Regulation 7000.14-R, volume 10, allows exceptions to requirements for a valid invoice. DoD Regulation 7000.14-R, volume 10, states that it is not necessary for an invoice to be free of defects in order for it to be proper and create a valid demand on the Government; the approving activity determines whether a valid demand exists. These exceptions are contrary to the requirements in 5 C.F.R. Part 1315. In assessing whether an invoice was proper, we used the requirements in 5 C.F.R. Part 1315. Specifically, invoices were considered improper if they did not contain a contract or obligating document number, or did not adequately describe what was purchased or the description was inconsistent with the contract. The FAR requires that an invoice that is missing required data be returned to the vendor, which can make the needed corrections and resubmit a clearly marked corrected invoice. Consequently, invoices were also considered improper if they were altered.

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**Receiving Reports.** The PPA requires that receipt and acceptance be promptly recorded at the time of delivery of goods or completion of services. Receiving activities were required to submit a receiving report immediately upon each delivery of goods or completion of services unless the contract stated that partial payment was not authorized. Receiving activities were to forward a proper receiving report to the payment office by the fifth working day after acceptance. 5 C.F.R. Part 1315.9 states that:

(c) The following information from receiving reports, delivery tickets, and evaluated receipts is required as payment documentation:

- (1) Name of vendor;
- (2) Contract or other authorization number;
- (3) Description of goods or services;
- (4) Quantities received, if applicable;
- (5) Date(s) goods were delivered or services were provided;
- (6) Date(s) goods or services were accepted;
- (7) Signature (or electronic alternative when supported by appropriate internal controls), printed name, telephone number, mailing address of the receiving official, and any additional information required by the agency.

The proposed change to the FAR basically restates existing requirements for receiving reports. The proposed change states that:

(c) Authorization to pay. ...The receiving report or other Government documentation authorizing payment must, as a minimum, include the following:

- (1) Contract number or other authorization for supplies delivered or services performed.
- (2) Description of supplies delivered or services performed.
- (3) Quantities of supplies received and accepted or services performed, if applicable.
- (4) Date supplies delivered or services performed.

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(5) Date that the designated Government Official –

- (i) Accepted the supplies or services; or
  - (ii) Approved the progress payment request, if the request is being made under the clause at 52.232-5, Payments Under Fixed-Price Construction Contracts, or the clause at 52.232-10, Payment Under Fixed-Price Architect-Engineering Contracts.
- (6) Signature, printed name, title, mailing address, and telephone number of the designated Government official responsible for acceptance or approval functions.

DoD Regulation 7000.14-R, volume 10, does not specify what a receiving report must contain to properly support a payment.

**Contracts.** To properly support a payment, the paying office must have a signed contract or other authorization document against which payment is being made. 5 C.F.R. Part 1315.9 states that:

The following information from the contract is required as payment documentation:

- (1) Payment due date(s) as defined in Sec. 1315.4(g);
- (2) A notation in the contract that partial payments are prohibited, if applicable;
- (3) For construction contracts, specific payment due dates for approved progress payments or milestone payments for completed phases, increments, or segments of the project;
- (4) If applicable, a statement that the special payment provisions of the Packers and Stockyard Act of 1921 (7 U.S.C. 182(3)), or the Perishable Agricultural Commodities Act of 1930 (7 U.S.C. 499a(4)), or Fish and Seafood Promotion Act of 1986 (16 U.S.C. 4003(3)) shall apply;
- (5) Where considered appropriate by the agency head, the specified acceptance period following delivery to inspect and/or test goods furnished or to evaluate services performed is stated;
- (6) Name (where practicable), title, telephone number, and complete mailing address of officials of the Government's designated agency office, and of the vendor receiving the payments;

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- (7) Reference to requirements under the Prompt Payment Act, including the payment of interest penalties on late invoice payments (including progress payments under construction contracts);
  - (8) Reference to requirements under the Debt Collection Improvement Act (Pub. L. 104-134, 110 Stat. 1321) including the requirement that payments must be made electronically except in situations where the EFT requirement is waived under 31 CFR 208.4. Where electronic payment is required, the contract will stipulate that banking information must be submitted no later than the first request for payment.

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## Appendix E. Statistical Sampling Methodology

### Sampling Plan

**Sampling Purpose.** The purpose of the statistical sampling plan was to estimate the number of vendor payments that did not have proper documentation by type of payment and type of document. The statistical sampling plan was also used to estimate the number of erroneous payments, once it was determined that a payment was not properly supported. The payments were reviewed to determine whether documentation was adequate and complied with the PPA.

**Universe Represented.** DFAS Indianapolis provided a database of vendor payments made using CAPS from May 1 through July 31, 2000. The file contained records on 236,940 vendor payments. The total dollar value of the vendor payments in the population was \$4.1 billion.

**Sampling Design.** The sampling design used to determine whether or not the vendor payments had proper documentation was a stratified attribute design. The population was divided into three strata: payments valued at less than \$2,500, payments valued at least \$2,500 but less than \$1 million, and payments valued at \$1 million or more. A total of 300 payments (148 contractual and 152 miscellaneous) were randomly selected: 160 from the first stratum, 80 from the second stratum, and 60 from the third stratum.

### Sampling Results

Table E-1 identifies the statistical estimates of vendor payments that were not properly supported by type of payment.

<b>Table E-1. Payments Not Properly Supported (99-Percent Confidence Level)</b>			
Type of Payment	Lower Bound	Point Estimate	Upper Bound
Contractual	61,937	80,620	99,302
Miscellaneous	82,018	100,787	119,556

We are 99-percent confident that from 61,937 to 99,302 contractual payments were not properly supported. Also, we are 99-percent confident that from 82,018 to 119,556 miscellaneous payments were not properly supported. Table E-2 identifies the statistical estimates of contractual payments that were not properly supported by document type.

<b>Table E-2. Contractual Payments Not Properly Supported by Document Type (99-Percent Confidence Level)</b>			
Type of Document	Lower Bound	Point Estimate	Upper Bound
Invoices	18,868	32,437	46,006
Receiving Reports	55,806	74,000	92,194
Contracts	3,817	12,532	21,248
Incorrect Receiving Report Dates	23,669	37,949	52,230

We are 99-percent confident that from 18,868 to 46,006 vendor payments were not properly supported due to improper invoices. We are 99-percent confident that from 55,806 to 92,194 vendor payments were not properly supported due to improper receiving reports. We are 99-percent confident that from 3,817 to 21,248 vendor payments were not properly supported due to improper obligation documents. We are also 99-percent confident that from 23,669 to 52,230 payments were made using receiving reports containing inaccurate dates.

Table E-3 identifies the statistical estimates of miscellaneous payments that were not properly supported by document type.

<b>Table E-3. Miscellaneous Payments Not Properly Supported by Document Type (99-Percent Confidence Level)</b>			
Type of Document	Lower Bound	Point Estimate	Upper Bound
Invoices	7,253	17,507	27,761
Receiving Reports	82,018	100,787	119,556
Obligation Documents	7,260	17,022	26,783

We are 99-percent confident that from 7,253 to 27,761 vendor payments were not properly supported due to improper invoices. We are 99-percent confident that from 82,018 to 119,556 vendor payments were not properly supported due



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to improper receiving reports. We are 99-percent confident that from 7,260 to 26,783 vendor payments were not properly supported due to improper obligation documents.

Table E-4 identifies the statistical estimates of vendor payments that were erroneous by type of payment.

<b>Table E-4. Erroneous Payments (99-Percent Confidence Level)</b>			
Type of Payment	Lower Bound	Point Estimate	Upper Bound
Contractual	5,775	15,549	25,323
Miscellaneous	5,341	15,035	24,730
All	17,451	30,584	43,717

We are 99-percent confident that from 17,451 to 43,717 vendor payments were made erroneously to vendors. We are 99-percent confident that from 5,775 to 25,323 contract payments were made erroneously. We are 99-percent confident that from 5,341 to 24,730 miscellaneous payments were made erroneously.

Each of the individual estimates is projected at the 99-percent confidence level. However, taking a conservative approach, reviewing each of the 11 estimates as an independent projection, we estimate the overall confidence level for all 11 estimates simultaneously is approximately 90-percent.

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## Appendix F. Erroneous and Unsupported Payments

From our sample of payments made from May 1 through July 31, 2000, we identified 39 erroneous payments. We considered a payment to be erroneous if the vendor was paid the incorrect amount. We identified \$1,000,025.53 in overpayments and \$23,959.98, in underpayments. Thirty-one additional payments, valued at about \$2.4 million, were made without proper supporting documents or the supporting documents contained information that was inconsistent with the payment. Based on available information, we question the appropriateness of these 31 payments.

### Incorrect Amounts Paid to Vendors

DFAS field sites made 39 vendor payments in the incorrect amount resulting in overpayments of about \$1 million and underpayments of about \$24,000. A payment was considered erroneous if the vendor was paid the incorrect amount based on the documents supporting the payment. Table F-1 shows, by category, the number of erroneous payments and dollar value of overpayments and underpayments.

Table F-1. Incorrect Amounts Paid to Vendors			
Category	Number of Erroneous Payments	Amount Overpaid	Amount Underpaid
Miscalculation of Payment Due Date	16	\$ 235.94	\$ 520.76
Incorrect Information Entered in CAPS	16	967,869.33	18,678.29
Vendor Paid More Than Amount Due	5	31,920.26	0
Discounts Improperly Taken	2	0	4,760.93
<b>Total</b>	<b>39</b>	<b>\$1,000,025.53</b>	<b>\$23,959.98</b>

**Miscalculation of Payment Due Date.** Technicians miscalculated the payment due dates on 16 payments. As a result, DFAS overpaid eight invoices by \$235.94 and underpaid eight invoices by \$520.76. In each of the 16 cases, the payments were not paid on the expected payment date and the interest payment was not recalculated. As a result, the vendors were paid the incorrect amount of interest. The following list identifies information on each of the 16 payments, including the amount of the overpayment or underpayment which occurred and whether subsequent action was taken to recover the overpayment or pay the vendor the underpaid amount.

Payment Office	Voucher Number	Voucher Date	Overpayment (Underpayment) <sup>1</sup>	Remedial Action Taken
<b>Defense Agency</b>				
<b>Financial</b>				
Services	304315	6/30/00	\$ 5.48	No
Europe	243978	6/16/00	1.13	No
Lawton	252830	6/1/00	(3.66)	No
Lexington	214614	5/16/00	2.09	No
Lexington	201071	7/27/00	203.04	No
Orlando	204886	5/2/00	10.23	No
Orlando	209467	5/9/00	(307.99)	No
Orlando	237629	6/15/00	12.42	No
Orlando	246045	6/27/00	1.26	No
Rock Island	270391	5/30/00	(195.69)	No
San Antonio	251487	5/31/00	0.29	No
San Antonio	258013	6/9/00	(0.40)	No
San Antonio	266817	6/22/00	(1.02)	No
San Antonio	263436	7/18/00	(6.09)	No
San Antonio	267187	7/24/00	(1.45)	No
St. Louis	270979	5/30/00	(4.46)	Yes

**Incorrect Information Entered Into CAPS.** Technicians incorrectly entered the dates used to calculate payment due dates and the amount due vendors. In addition, payment remittance information was not changed promptly. Incorrect information in CAPS caused 5 overpayments totaling \$967,869.33 and 11 underpayments totaling \$18,678.29. The following list provides pertinent information on the 16 erroneous payments.

<sup>1</sup> Overpayments and underpayments are estimates based on straight-line interest at the rate in effect at the time of payment.

Payment Office	Voucher Number	Voucher Date	Overpayment (Underpayment)	Remedial Action Taken
DNO	306896 <sup>2</sup>	7/6/00	\$ (7.62)	No
Europe	237781 <sup>3</sup>	5/10/00	937,918.00	Yes
Europe	286188 <sup>4</sup>	6/14/00	(1,252.00)	No
Europe	273296 <sup>5</sup>	6/30/00	116.88	Yes
Lawton	265269 <sup>2</sup>	7/19/00	3.30	No
Rock Island	275309 <sup>4</sup>	5/10/00	1.54	No
Rock Island	278464 <sup>5</sup>	5/17/00	29,829.61	Yes
Rock Island	282472 <sup>2</sup>	5/26/00	(1,836.25)	No
Rock Island	272797 <sup>2</sup>	6/6/00	(7.51)	No
Rock Island	270197 <sup>2</sup>	6/29/00	(5.78)	No
Rock Island	275823 <sup>4</sup>	7/12/00	(2.68)	No
Rock Island	275838 <sup>4</sup>	7/12/00	(13,275.36)	No
Rome	220097 <sup>3</sup>	5/23/00	(1,639.86)	Yes
San Antonio	269337 <sup>2</sup>	5/26/00	(0.84)	No
St. Louis	279480 <sup>2</sup>	6/21/00	(648.68)	Yes
USPFO				
California	257168 <sup>2</sup>	7/7/00	(1.71)	No

**Entering Information in CAPS.** Technicians did not correctly enter information that affected payment amounts and the vendor entitled to payment. The dates used to calculate the payment due dates were also not entered correctly. Technicians sometimes entered the wrong date or used an incorrect date from the supporting documentation.

- A technician at DFAS Europe entered the total amount invoiced for the month instead of the amount due to vendor shown on the invoice. The vendor had previously requested 95 percent of the anticipated monthly charge and only requested the difference between the actual monthly charges and the amount previously invoiced. As a result, the vendor was overpaid by about \$937,918. The overpayment was recouped 2 months later.
- A payment made by DFAS Rock Island for \$29,829.61 was sent to the incorrect vendor. A modification to the contract changed the vendor name and address. DFAS Rock Island had the modification and corrected part of the information but failed to change the EFT and remittance information in CAPS. The vendor that mistakenly received the payment returned the money to DFAS.
- DFAS Rock Island received invoice number 39128 as a certified invoice from the Watervliet Arsenal, Watervliet, New York. Since the invoice was not date-stamped, DFAS Rock Island calculated the payment due date from the invoice date of March 31, 2000, rather than the constructive acceptance date of April 17, 2000. The

<sup>2</sup>Incorrect invoice receipt date.

<sup>3</sup>Incorrect dollar amount.

<sup>4</sup>Incorrect acceptance date.

<sup>5</sup>Incorrect vendor name and address.

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payment was made on May 10, 2000, instead of on May 17, 2000.  
An interest payment of \$1.54 was inappropriately paid to the vendor.

In all cases, supporting documentation identified that the technician had made an error in computing the payment. Certifying officials should have detected these errors and returned the payments for correction.

**Vendor Paid More Than Amount Due.** The following five payments were erroneous because the payment exceeded the amount that the vendor was entitled to receive.

Payment Office	Voucher Number	Voucher Date	Overpayment (Underpayment)	Remedial Action Taken
Lawton	259151	7/11/00	\$ 13.67	No
Lexington	237165	6/15/00	25.34	No
Lexington	207480	7/7/00	179.54	No
San Antonio	263071	5/18/00	857.22	Yes
St. Louis	274066	5/5/00	30,844.49	No

**Discounts Improperly Taken.** The following two erroneous payments were caused by technicians taking discounts that DoD was not entitled to based on the payment due date.

Payment Office	Voucher Number	Voucher Date	Overpayment (Underpayment)	Remedial Action Taken
Europe	249379	7/21/00	\$ (1.02)	No
Lawton	253135	7/31/00	(4,759.91)	No

## Missing or Inconsistent Supporting Documents

We questioned the appropriateness of DFAS field sites making 31 payments, valued at about \$2.4 million, based on available information. The payments were made without proper supporting documents or the supporting documents contained information that was inconsistent with the payment. Table F-2 shows the number of payments by category and the dollar value of the payments that should not have been made until proper documentation was obtained.

<b>Table F-2. Missing Supporting Documents</b>		
<b>Category</b>	<b>Number of Erroneous Payments</b>	<b>Total Dollar Value of Payments</b>
No Invoice	2	3,755.58
No Invoice and Receiving Report	1	5,614.50
No Invoice, Receiving Report and Obligation Document	1	28.24
No Receiving Report	10	2,337,741.08
No Receiving Report and Obligation Document	3	1,998.84
No Obligation Document	3	470.04
Individual Delivery Orders Not Issued	8	7,110.72
Supporting Documentation Did Not Match Payment	1	248.00
Payment Inconsistent With Contract	2	1707.84
<b>Total</b>	<b>31</b>	<b>\$2,358,674.84</b>

**No Receiving Report.** The following 10 payments were made without a receiving report.

Payment Office	Voucher Number	Payment Date	Amount
Department 97	318547	5/26/00	\$1,165,584.29
Department 97	301104	7/28/00	1,165,584.29
DNO	315333	5/22/00	137.22
DNO	317540	5/25/00	1,934.90
DNO	304648	6/2/00	112.36
DNO	315404	7/21/00	1,011.16
Europe	241638	6/2/00	1,396.30
Orlando	208431	7/10/00	975.00
Rome	226057	6/1/00	87.56
San Antonio	251363	7/27/00	918.00

**Individual Delivery Orders Not Issued.** Delivery orders were not issued to authorize the following eight payments.

Payment Office	Voucher Number	Payment Date	Amount
Lawton	254365	5/3/00	\$2,419.34
Lawton	263764	7/17/00	1,548.40
Rome	211222	5/11/00	88.15
Rome	221938	5/25/00	1,275.67
Rome	239019	6/19/00	203.36
Rome	242917	6/22/00	995.45
Rome	203194	6/30/00	549.10
Rome	216037	7/19/00	31.25

**No Receiving Report and Obligation Document.** The following three payments were made without a receiving report and obligation document.

Payment Office	Voucher Number	Payment Date	Amount
Rome	206779	5/4/00	\$1,891.00
San Antonio	260333	5/11/00	85.00
Army Recruiting Command	305061	5/3/00	22.84

**No Obligation Document.** The following three payments were made without an obligation document.

Payment Office	Voucher Number	Payment Date	Amount
Lawton	268685	7/24/00	\$ 44.25
Army Recruiting Command	303740	5/2/00	372.62
Army Recruiting Command	309166	5/10/00	53.17

**No Invoice.** The following two payments were made without an invoice.

Payment Office	Voucher Number	Payment Date	Amount
Europe	284835	6/5/00	\$2,513.20
Rock Island	279180	5/18/00	1,242.38

**No Invoice and Receiving Report.** The following payment was made without an invoice and receiving report.

Payment Office	Voucher Number	Payment Date	Amount
Rome	205993	5/4/00	\$5,614.50

**Supporting Documentation Did Not Match Payment.** The supporting documents for the following payment did not reflect consistent information.

Payment Office	Voucher Number	Payment Date	Amount
San Antonio	263760	5/18/00	\$248.00



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**Payment Inconsistent With the Contract.** The following two payments were questionable because either the invoice or receiving report was not consistent with the contract.

Payment Office	Voucher Number	Payment Date	Amount
DNO	306438	5/4/00	\$ 207.84
Rock Island	273339	6/6/00	1,500.00

**No Supporting Documentation.** The following payment was made without any supporting documentation.

Payment Office	Voucher Number	Payment Date	Amount
Orlando	214123	7/18/00	\$28.24

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## **Appendix G. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition, Technology, and Logistics  
    Director for Acquisition Initiatives  
Under Secretary of Defense (Comptroller)  
    Deputy Chief Financial Officer  
    Deputy Comptroller (Program/Budget)

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Assistant Secretary of the Army (Acquisition, Logistics, and Technology)  
Auditor General, Department of the Army  
Chief, National Guard Bureau

### **Department of the Navy**

Naval Inspector General  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Other Defense Organizations**

Director, Defense Finance and Accounting Service  
    Director, Commercial Pay Services

### **Non-Defense Federal Organization**

Office of Management and Budget

### **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member**

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations

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## **Congressional Committees and Subcommittees, Chairman and Ranking Minority Member (cont'd)**

Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on Defense, Committee on Appropriations  
House Committee on Armed Services  
House Committee on Government Reform  
House Subcommittee on Government Efficiency, Financial Management, and Intergovernmental Relations, Committee on Government Reform  
House Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform  
House Subcommittee on Technology and Procurement Policy, Committee on Government Reform

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# Under Secretary of Defense (Comptroller) Comments



OFFICE OF THE UNDER SECRETARY OF DEFENSE  
1100 DEFENSE PENTAGON  
WASHINGTON, DC 20301-1100

DEC 27 2001

MEMORANDUM FOR DIRECTOR FOR FINANCE AND ACCOUNTING, OFFICE OF  
THE INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

SUBJECT: Draft Report of a Proposed Audit Report on Controls Over Vendor Payments Made  
for the Army and Defense Agencies Using the Computerized Accounts Payable  
System (Project No. D2000FI-0248.001)

You recently forwarded the subject draft report for review and comment. One proposed recommendation in your report asked the Under Secretary of Defense (Comptroller) (USD(C)), in coordination with the Defense Finance and Accounting Service, to develop and incorporate standard business rules for making vendor payments into the Department of Defense Financial Management Regulation ("DoDFMR"), DoD 7000.14-R.

This office already has taken action to revise Volume 10, Chapter 7, "Prompt Pay" of the "DoDFMR." That revision incorporates the prompt pay documentation required by Title 5, Code of Federal Regulations, part 1315 (particularly in 5 C.F.R. 1315.9) and includes the requirement, specified in the Debt Collection Improvement Act of 1996, to obtain a vendor's taxpayer identification number. The formal 30-day electronic coordination period for that issuance ended on November 29, 2001.

Following receipt and consideration of the remaining comments from the DoD Components, this office will issue the revised policies and procedures in Volume 10, Chapter 7, of the "DoDFMR." Given that action already has been taken, recommend that you identify the pending completion of the suggested recommendation in your final report.

My point of contact in this matter is Ms. Melanie Willis. She may be reached by e-mail at willism@osd.pentagon.mil or by telephone at (703) 602-0456.

A handwritten signature in black ink, appearing to read "W. W. Ritchie, Jr.".

Acting Deputy Chief Financial Officer

# Department of the Army Comments



DEPARTMENT OF THE ARMY  
OFFICE OF THE ASSISTANT SECRETARY  
(FINANCIAL MANAGEMENT AND COMPTROLLER)  
100 ARMY PENTAGON  
WASHINGTON DC 20310-0109  
February 21, 2002

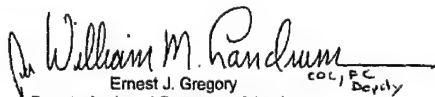
MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
ODODIG, 400 ARMY NAVY DRIVE,  
ARLINGTON, VIRGINIA 22202-4704

SUBJECT: Audit Report on Controls Over Vendor Payments Made for the  
Army and Defense Agencies Using the Computerized Accounts Payable  
System (Project No. D2000FI-0248.001)

Concur with subject draft audit report, dated November 21, 2001. To comply with your recommendation, we will work with your office, the Defense Finance and Accounting Service and the Assistant Secretary of the Army (Acquisition, Logistics, and Technology) to implement recommendations C.1.a, C.1.b and C.1.3 and issue detailed written guidance for the processing of receiving reports by March 15, 2002.

To help obtain properly prepared receiving reports in a timely manner, the Army also intends to pilot Wide Area Work Flow- Receipt and Acceptance version 2.0c in United States Army, Europe by May 2002.

My point of contact is LTC Bob Kucharuk. He may be reached at 703-607-3969 or email [kucharukre@hdaa.army.mil](mailto:kucharukre@hdaa.army.mil).

  
Ernest J. Gregory  
Deputy Assistant Secretary of the Army  
(Financial Operations)

Copy furnished:  
Under Secretary of Defense (Comptroller)  
Director, Defense Finance and Accounting Service  
Department of the Army Auditor General  
Assistant Secretary of the Army (Acquisition, Logistics and Technology)

# Defense Finance and Accounting Service Comments



## DEFENSE FINANCE AND ACCOUNTING SERVICE COLUMBUS CENTER

P.O. BOX 182317  
COLUMBUS, OHIO 43218-2317

IN REPLY  
REFER TO

DFAS-BS/CC


FEB 07 2002

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,  
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF  
DEFENSE

SUBJECT: DoD IG Draft Report, Project No. D2000F1-0248.001, "Controls Over Vendor  
Payments Made for the Army and Other Defense Agencies Using the Computerized  
Accounts Payable System," dated November 21, 2001

Management comments for Recommendations A.1, A.2, B.1-B.7, C.1, and C.2 are  
attached as requested.

Point of contact for additional information is Ms. Janice Hutton, at DSN 869-0868 or  
614 693-0868.

  
JoAnn Boutelle  
Director, Commercial Pay Services

Attachment  
As stated

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**Comments to the Draft Proposed Audit Report, Controls Over Vendor Payments Made for the Army and Defense Agencies Using the Computerized Accounts Payable System**

**Recommendation A.1:** We recommend that the Under Secretary of Defense (Comptroller), in coordination with the Director, Commercial Pay Services, develop and incorporate into DoD Regulation 7000.14-R, Volume 10, standard business rules for making vendor payments.

**Management Comments:** Partially Concur. A Vendor Pay Standardization Study has been conducted, in which a series of recommendations have been made, such as standard practices for date stamping documents, document management, entering and certifying entitlements, and pre-validation prior to payment to ensure funds are available. The Commercial Pay Services Director will work with the Under Secretary of Defense (Comptroller) on appropriate changes. Certain items will not be incorporated into changes to DoD Regulation 7000.14R, Volume 10, such as changes representing detailed processes that are unique to specific Vendor Pay Support Offices.

**Estimated Completion Date:** September 30, 2002.

**Recommendation A.2:** Recommend the Director, Commercial Pay Services, improve the identification and correction of problems in making vendor payments by:

**Recommendation A.2.a:** Identifying the best practices used by vendor payment offices to detect weaknesses in the vendor payment process and designating those best practices as standard reporting and monitoring tools.

**Management Comments:** Concur. A Vendor Pay Standardization Study was conducted at nine Vendor Pay Offices, and 20 changes for standardization were recommended. The Vendor Pay study is currently under review by the Vendor Pay Support Directors. Once recommendations are agreed upon, implementation will begin. The Commercial Pay Services Director meets quarterly with the Vendor Pay Site Managers to discuss, review, and implement best practices. Identifying and implementing best practices is a continuous process and will be a topic of discussion at the quarterly meetings.

**Estimated Completion Date:** This recommendation is considered closed.

**Recommendation A.2.b:** Verifying that the Predator software application has been properly installed at all field sites and providing individuals who run the Predator software with sufficient training.

**Management Comments:** Partially concur. Predator software was installed at all Vendor Pay sites in the Army network by the end of calendar year 1999. Currently, the Predator software application produces a high number of false positives. Reviewing the high number of false positives takes an inordinate amount of time. As a result an evaluation is being conducted to



improve the screening process and reduce necessitated time-consuming research. The STARS-One Pay system, used to process Navy Vendor Payments, contains edits and query capabilities to identify potential duplicate payments prior to disbursement. We will compare the STARS-One Pay system edits to Predator to determine if Predator should be fielded by the Navy support sites.

**Estimated Completion Date:** This recommendation is considered closed.

**Recommendation A.2.c:** Performing monthly post-payment voucher reviews to ensure that payments are legal, proper, and correct for payment.

**Management Comments:** Partially concur. DoD Regulation 7000.14-R, volume 5, specifies that post-payment reviews be conducted, but does not specify the frequency of the reviews. Commercial Pay Services is currently conducting annual scheduled post-payment reviews at all Vendor Pay sites. When sites are identified with less than 95% accuracy, a follow-up review is conducted within 90 days to verify corrective actions have been taken and are effective in improving accuracy. (see attached schedule)

**Estimated Completion Date:** This recommendation is considered closed.

**Recommendation A.2.d:** Establishing performance measures that will track the number and dollar value of duplicate payments and other improper payments.

**Management Comments:** Concur. New Performance Measurement Indicators (PMI) are being developed to monitor the number and dollar value of duplicate and other improper payments. Additionally, improvements to the Predator software will be implemented in May 2002, which will reduce the number of false positives and make the data more feasible to use for PMIs.

**Estimated Completion Date:** June 28, 2002.

**Recommendation B:** We recommend that the Director, Commercial Pay Services:

**Recommendation B.1:** Develop and implement standard system access profiles to complement a standard business structure for making payments using the Computerized Accounts Payable System.

**Management Comments:** Concur. Standard system access profiles for making payments using CAPS are currently being evaluated. Once the evaluation is complete, the profiles will become standardized for making payments using CAPS. Implementation of profiles with appropriate realignment of organizational elements will take place in June 2002.

**Estimated Completion Date:** June 28, 2002.

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**Recommendation B.2:** Evaluate the ability of smaller vendor payment offices to use standard system profiles. As necessary, increase the staffing needed to adequately segregate duties or relocate vendor payment operations to a field site that can properly segregate duties.

**Management Comments:** Partially Concur. An evaluation is being conducted to determine the ability of smaller vendor payment offices to use standard system profiles. Proper segregation of duties will also be evaluated.

**Estimated Completion Date:** June 28, 2002.

**Recommendation B.3:** Remove remote access to update and certify information in the Computerized Accounts Payable System for Windows until the system can provide proper segregation of duties and security over remotely entered data.

**Management Comments:** Partially Concur. Remote certification access in CAPS has been removed at all Army Vendor Pay Support Sites. The DFAS Commercial Pay Business Line (CPBL) System Access Evaluation Project is developing two remote access profiles within CAPS-W that provide for one remote user to input contracts, modifications, invoices, and receiving report information, and a separate user to compute payments. The profiles will be standardized within CAPS-W and authorization and assignment will be controlled via DISA Form 41, under the approval of the Director, Army Vendor Pay Support.

**Estimated Completion Date:** June 28, 2002.

**Recommendation B.4:** Develop a plan of action to have field sites using the Clipper version of the Computerized Accounts Payable System use another vendor payment system unless system access controls can be improved and other system deficiencies corrected in a cost-effective manner.

**Management Comments:** Partially Concur. CAPS Clipper access controls are included in the CAPS System Access Evaluation Project. During the evaluation, a determination was made that improvements and system access controls can be corrected in a cost-effective manner. These improvements to system access controls will be fielded with the release of CAPS Clipper version 7.0 in July 2002.

**Estimated Completion Date:** July 31, 2002.

**Recommendation B.5:** Develop and fund system change requests to correct password and system control deficiencies in the Computerized Accounts Payable System for Windows.

**Management Comments:** Concur. System change requests have been developed to correct password and system control deficiencies in CAPS-W. The change will be included in the CAPS version 7.0 release. This release will automatically limit logon attempts to three before locking

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the user out, all passwords not used within 60 days will be revoked. Additionally, this release will prevent the user from logging into multiple work stations simultaneously.

**Estimated Completion Date:** July 31, 2002.

**Recommendation B.6:** Develop action plans for overcoming obstacles that prevent the automated interfacing of data between the Computerized Accounts Payable System and the Standard Procurement System and for implementing automated interfaces between the CAPS and the Corporate Electronic Funds Transfer database.

**Management Comments:** Concur. Obstacles preventing an automated interface between CAPS and the Standard Procurement System, and an interface between CAPS and the CEFT database, have been identified. An MOA between DFAS and the Army addressing the interface between SPS and CAPS was signed on November 26, 2001, and site certification is underway. There are nine Contracting Offices scheduled for certification testing in FY 2002. CAPS system change requests, relative to receiving SPS files, have been written to refine SPS files (i.e., the automation of receipt of SPS files without manual intervention). CAPS is scheduled to interface with CEFT in the 6.0 Release scheduled for November 2002.

**Estimated Completion Date:** November 29, 2002.

**Recommendation B.7:** Report access and control deficiencies with the CAPS as a material control weakness in the Annual Statement of Assurance for the Defense Finance and Accounting Service until proper corrective actions can be implemented or the system is replaced by the Defense Procurement Payment System.

**Management Comments:** Concur. Two material weaknesses titled, "Separation of Duties/User Profiles in the CAPS-W and Clipper", and "Remote Access and Processing of Vendor Payments", were identified in the DFAS Columbus FY 2001 Vendor Pay Services Annual Statement of Assurance as material weaknesses.

**Estimated Completion Date:** This recommendation is considered closed.

**Recommendation C.1:** We recommend that the Assistant Secretary of the Army (Financial Management and Comptroller), in coordination with the Director, Commercial Pay Services, and the Assistant Secretary of the Army (Acquisition, Technology, and Logistics):

**Recommendation C.1.a:** Train personnel at designated billing offices on the requirements for properly date-stamping documents supporting vendor payments.

**Management Comments:** Although the recommendation is to the Army, we may provide assistance as requested.

**Estimated Completion Dates:** This recommendation is considered closed.

**Recommendation C.1.b:** Train personnel at Army activities on the standards for proper receipt and acceptance of goods and services.

**Management Comments:** Although the recommendation is to the Army, we may provide assistance upon request.

**Estimated Completion Dates:** This recommendation is considered closed.

**Recommendation C.1.c:** Cease using Standard Form 1034 as an invoice, receiving report, and obligation document and only allow its use to support a properly certified payment as authorized by DoD Regulation 7000.14-R, volume 10.

**Management Comments:** Nonconcur. Various miscellaneous payments, such as legal claims, are allowed to be paid via the SF 1034, in accordance with FMR Volume 10, Chapter 8. We are encouraging the use of the DD250 in lieu of the SF 1034 but cannot find any substantiating regulatory guidance which prohibits the use of the SF 1034.

**Estimated Completion Dates:** This recommendation is considered closed.

**Recommendation C.2:** Recommend the Director, Commercial Pay Services:

**Recommendation C.2.a:** Direct field sites to use the invoice date for computing the payment due date if the date stamp on the invoice does not clearly identify that the office designated in the contract received the invoice.

**Management Comments:** Partially concur. A policy letter is under development that will require use of the invoice date for computing the payment due date when the date stamp on the invoice does not clearly indicate that the office designated in the contract received the invoice (unless communication with the designated office can substantiate the true date of receipt on the invoice). The letter is currently in management review. Once approved, the policy letter will be sent out to applicable field sites to use.

**Estimated Completion Date:** April 30, 2002.

**Recommendation C.2.b:** Direct field sites to establish a procedure for determining the reasonableness of receipt and acceptance dates and returning receiving reports that provide unreasonable dates.

**Management Comments:** Nonconcur. Commercial Pay Services does not set reasonableness of receipt and acceptance dates. This is the responsibility of the ordering service or agency. We will continue to use the seven day constructive acceptance rule contained in the FAR.

**Estimated Completion Date:** This recommendation is considered closed.

**Recommendation C.2.c:** Suspend the current policy of making payments for recurring services without a receiving report until adequate controls are in place to verify that payments are not being made until acceptance occurs and that acceptance documentation is properly prepared and maintained.

**Management Comments:** Concur. A memorandum will be written by Commercial Pay Services to suspend the current practice of making payments for recurring services without a receiving report. The policy will suspend making payments for recurring services exempted in DoD Regulation 7000.14-R, Volume 10, Chapter 9, Section 6, paragraph 02, which allows the receiving reports to be held in the disbursing office or the receiving activities files for recurring service/maintenance type contracts. Compensating controls are being identified to verify payments are not being made until acceptance occurs, and that acceptance documentation is properly prepared and maintained.

**Estimated Completion Date:** April 30, 2002.

**Recommendation C.2.d:** Conduct an audit of contract number DABT60-97-D-0007 to determine if duplicate or erroneous payments were made.

**Management Comments:** Concur. Review of contract number DABT60-97-D-0007 is currently ongoing. The review of payments from Rock Island and St. Louis has been completed, and duplicate payments were not identified between the two sites. Payments made by Lawton are currently under review to determine whether payments made match any made by Rock Island or St. Louis.

**Estimated Completion Date:** February 28, 2002.

**Recommendation C.2.e:** Review and resolve those improper payments and the other questionable payments that are considered significant.

**Management Comments:** Concur. Review of payments made under DABT60-97-D-0007 is currently ongoing. Other questionable payments identified to sites during the review have been completed.

**Estimated Completion Date:** February 28, 2002.

## **Audit Team Members**

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, prepared this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

Paul J. Granetto  
Richard B. Bird  
Marvin L. Peek  
Carmelo G. Ventimiglia  
George C. DeBlois  
Michelle D. Pippin  
Rebecca L. Niemeier  
Lusk F. Penn  
Lisa Rose-Pressley

## INTERNET DOCUMENT INFORMATION FORM

**A . Report Title: Financial Management: Controls Over Vendor Payments Made for the Army and Defense Agencies Using the Computerized Accounts Payable System**

**B. DATE Report Downloaded From the Internet: 03/07/02**

**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):**  
OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-2884

**D. Currently Applicable Classification Level: Unclassified**

**E. Distribution Statement A: Approved for Public Release**

**F. The foregoing information was compiled and provided by:**  
DTIC-OCA, Initials: \_\_VM\_\_ Preparation Date 03/07/02

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